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U.S. AND FOREIGN COMMERCIAL SERVICE

HEARING

BEFORE THE

SUBCOMMITTEE ON FOREIGN COMMERCE AND TOURISM

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

OVERSIGHT OF THE FOREIGN COMMERCIAL SERVICE IN THE DEPARTMENT OF COMMERCE

OCTOBER 21, 1987

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U.S. AND FOREIGN COMMERCIAL SERVICE

WEDNESDAY, OCTOBER 21, 1987

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON FOREIGN COMMERCE AND TOURISM,
Washington, D. C.

The Subcommittee met, pursuant to notice, at 9:44 a.m., in room SR-253, Russell Senate Office Building, Hon. John D. Rockefeller IV (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: Sally Susman, professional staff member and Gerri Hall, minority professional staff member.

OPENING STATEMENT BY SENATOR ROCKEFELLER

Senator ROCKEFELLER. This hearing will come to order.

We are going to have Senator Adams coming in a moment, Governor Gardner, to introduce you. He is on his way here now, and I will proceed with my statement until he arrives.

The Foreign Commercial Service was established within the Department of Commerce seven years ago. Two years later, in 1982, the United States and Foreign Commercial Service, the US&FCS, brought together, in one entity, the district offices of the Department of Commerce and the commercial offices in our embassies and consulates abroad.

The question that we are going to be talking about today is how the US&FCS is performing. Is it providing the necessary services to small and medium sized businesses across the United States so that they can improve their export performance?

Is it delivering these services to businesses that have never been involved in selling abroad, but have the potential to do just that?

Is it helping to educate the smaller businessman so that he can come to recognize the desirability of entering the international market?

This effort, obviously, has never been more important than it is today. Our global trade deficit is well established now, in this last week, as one of the twin towers of our national deficit problem, and most experts predict that this year will either see an increase or perhaps only a small decrease in our trade deficit.

There are a lot of reasons for this deficit, including disastrous and, in my judgment, poor macroeconomic policies in this country that we have been pursuing for some time; the unwillingness of some of our major trading partners—the West Germans and the Japanese come immediately to mind—to implement necessary stimulative economic policies; Third World debt; and trade policies around the world, including protected markets, subsidization of exports by others, and industrial targeting. Finally, there is a whole range of what we call our own competitiveness problems, which we bring upon ourselves, such as our deficiencies in education, labor-management relations, quality control in manufacturing, and productivity. The list goes on.

The contribution that the US&FCS can make falls into this latter category, that is, what we can do to make ourselves stronger.

American business can compete abroad only if they have the right information about foreign markets. If they don't, they can't. If they won't get that information, they probably will not make the effort.

They need to understand how to sell overseas and where the markets are for their products. They need to know how to gain access to foreign buyers and how to tailor their products to a different set of standards, different specifications for different consumers.

This is the business of US&FCS.

The FCS had a shaky start back in 1980 when the commercial function overseas was taken out of the hands of the Department of State, and put under the responsibility of the Department of Commerce. The State Department, frankly, had given a rather low priority to trade promotion efforts, and the expectation was that the Commerce Department would assign it a much higher priority.

I am not certain that Commerce has really given it the priority that it deserves, but I really would like to see evidence that I am very wrong about that.

I welcome the comments made by my friend, Bill Verity, during his confirmation hearing in this room, when he answered my question about the US&FCS by saying that "There is great potential in that group which is being unused. I am aware of how important it could be. And I can assure you that I am going to work very closely with them to see if we can't make them more effective."

Well, that is a commitment from the top and that is good news.

As I look at developments since 1982, when the district offices and the FCS came together, it appears that there is still a long way to go before anything approaching integration occurs. I recognize there may be good reasons why combining a foreign service and a domestic service is difficult. I don't want to focus today on personnel matters. However, I am concerned that these problems may have interfered with the primary function of the US&FCS, assisting small and medium sized American businesses in exporting.

As I reviewed the history of the US&FCS, it is clear that there have been enormous problems in communication and in the exchange of information between the district offices and the posts overseas. I understand that CIMS, the Commercial Information Management System, is supposed to go a long way to correct that.

I do not want to dwell on the past and why it was so difficult and costly to put this system together. The fact is that it is coming on-line, and that is good news.

I want to focus on the present in this hearing and on the future. How can we be sure that present and potential exporters in the United States are getting the information and the help that they need.

Today is the first of what will be a yearly hearing in this Subcommittee on the US&FCS.

We are going to hear first today from Governor Booth Gardner of the State of Washington, who serves as Chairman of the Committee on International Trade and Foreign Relations of the National Governors' Association. The Association, and Governor Gardner himself, are deeply concerned with these same questions and have tackled them extensively.

Following Governor Gardner we will hear from Alexander Good, the Director General of the U.S. and Foreign Commercial Service.

We will then hear from users of the services—associations and individual businessmen.

Senator Wilson is here but Senator Adams is not. Governor Gardner has to leave at 10:05.

Senator Wilson, I was taking up time with my statement while waiting for Senator Adams to come. But I wonder, because Governor Gardner has to leave, literally, at 10:05, if we could hear from him first. Then I would ask you to make your comments.

If we could accommodate the Governor that way, I would be very grateful.

Senator WILSON. Certainly. I am always happy to help out.

STATEMENT OF HON. BOOTH GARDNER, GOVERNOR, STATE OF WASHINGTON, AND CHAIRMAN, COMMITTEE ON INTERNATIONAL TRADE AND FOREIGN RELATIONS, NATIONAL GOVERNOR'S ASSOCIATION

Governor GARDNER. Thank you, Senator, for taking the time to have this meeting.

The theme of what I have to say today is essentially the following. For years, States were not themselves actively involved in trade analysis, data gathering, or promotion. These were the realm of the Federal Government. But this has changed dramatically. Because of this changing environment, it is very important at this time that we look at the Federal-State relationship, and specifically the relationship between States and the Department of Commerce.

Over the last few years, States have developed their ability to work in the field of trade.As you know, Governors are travelling, abroad much more than they have historically. They are developing staffs with a great deal of expertise. They are developing the capability to provide information and opportunities for businesses in the State. Through the research universities in most States now they have projects in which they are trying to identify markets—and particularly niches in markets—from which they can package and develop products that meet foreign demand.

So a great deal of effort and energy is going into these activities.

That is why I think it is very timely that you are holding this hearing, and I am pleased to learn that you are going to do this on an annual basis. You then will have a way to follow up and make sure that the Department of Commerce and the States do, in fact, work together to promote both imports and exports.

I have already submitted testimony and supporting documents, which I understand will be inc cluded in thre record by reference. What I would like to do now is to suggest some areas in which I think States should have more responsibility; and, following that, areas in which I think the Federal Government, specifically the Department of Commerce, should take more responsibility. Then I would make some suggestions as to how we can begin to work together toward these ends.

It seems to me that States should have responsibility for analyzing trade trends, identifying new opportunities, encouraging firms to become involved in export, counselling companies on the best ways to meet their trade objectives, and cooperating with the Federal Government to promote the U.S. as a travel destination for foreign visitors. In that latter category, I might add that already in our region, we are comingling development and tourism advertising with not only the States of Oregon and Idaho, but also with British Columbia, to provide travel on a regional basis. States should also share their trade expertise with Federal policymakers and take the lead on foreign direct investment.

For its part, the Department of Commerce should develop sound national trade policy, collect data on trade trends and on foreign markets, make this information easily accessible to exporters and States, maintain and improve the U.S. and Foreign Commercial Service offices overseas (which, I might add, I think does a very good job,) insure that adequate export finance programs are available to U.S. companies, and provide a focal point for international tourism promotion and efforts.

Having said this, I would like to suggest that the Federal Government also should provide technical assistance on a by-request basis to the States that are seeking to improve their international trade programs. Specifically we suggest that the Department do the following three things: (1) anticipate changing world trends, look at new approaches, learn from other countries, and take the lead in providing a strong trade environment for this country.

(2) Redefine the Federal-State partnership, to eliminate overlap. Because States are becoming much stronger in this area, aduplications beginning to occur. I think, if we fine tune that, we can delineate what each of our responsibilities should be.

(3) Make U.S. trade intelligence the best in the world. We do a great job, a very good job, on export data, but there are flaws, because something that might be shipped out of the Port of Seattle, but actually came from Bismark, North Dakota, is credited to the Seattle market and not necessarily to the North Dakota market. We need to fine tune that.

Also, we are not getting the data we need on imports and we think this is important.

In closing, Mr. Chairman, I want to thank you again for making this opportunity available.

Senator ROCKEFELLER. Thank you, Governor Gardner.

Your statement will be put into the record.

As you indicated, you made a series of recommendations, the NGA did, back in late 1985, or was it 1986?

Governor GARDNER. We began the project in 1985 and reported in 1986.

Senator ROCKEFELLER. All right.

Now you have raised the question of overlap. I am interested in that.

Senator Wilson's State and your State are very aggressive in terms of the States' initiatives. States like West Virginia, unfortunately, are somewhat less so at the present time. We do not, for example, have an office overseas in Tokyo, as we surely should, and as I think we will very shortly.

So, overlap for us means something different than overlap for you.

Is overlap useful for you? You had pointed to technical assistance. Where could overlap be helpful and where is it a problem, as between the Foreign Commercial Service and your own efforts?

Governor GARDNER. That is why I made the point that I believe it is very important that, through the Committee which I chair in the National Governor's Association, and Mr. Good, that we begin to work more closely together.

Some States do not have the sophistication of a California, or Washington, or some of the Eastern States—Indiana, for example, which, to me, is in the East.

Secondly, Senator, let me add that the States, through the National Governor's Association—and I know you have been a member of that body—are spending a great deal of time in their sessions and committee meetings now on the area of international trade and foreign investment. So those States that have a better operation, just through experience, are teaching other States how they can get into the field in a more aggressive way.

Senator ROCKEFELLER. In fact, how do you use the US&FCS in the State of Washington?

Governor GARDNER. Well, they have an office in the State of Washington. Mr. Good travels to our State, as do some of his people.

We rely on them primarily for data. We converse with them when we need technical assistance and introductions to business contacts. Washington does not need as much assistance as some States do, but we rely on their expertise where we do not have direct rep[resentation overseas.

We have talked quite candidly, since you are pushing toward this question anyway, about the issue of colocation, whether we colocate with them, or, in fact, whether or not the State should take over the function within the State and the Foreign Office take over the foreign offices, and just have data sharing, with both sides feeding into it.

Senator ROCKEFELLER. Where does Washington have offices overseas?

Governor GARDNER. In Japan.

Senator ROCKEFELLER. In Tokyo?

Governor GARDNER. Yes.

But we would still be inclined to use their services overseas.

Senator ROCKEFELLER. How many people are there in your office overseas, ?

Governor GARDNER. We have an office of four. We colocate our agriculture and trade efforts in foreign investment.

Senator ROCKEFELLER. So, the overseas effort of FCS, for example, is useful to you and to your four people over there. Specifically, in what ways is it useful?

Governor GARDNER. Yes. It is useful in helping set up meetings. It is useful in gathering data. It is useful on follow-up. It is useful for the whole menu of activities that we do in most foreign countries, which we visit, with the possible exception of Japan, where we have a fairly good capability of our own.

Senator ROCKEFELLER. You have been overseas a number of times.

Governor GARDNER. That's correct.

Senator ROCKEFELLER. When you travel abroad have you relied from time to time on US&FCS or do you rely on your own people?

Governor GARDNER. I personally rely on our own people. Our people, however, interface with Mr. Good's operation, especially in countries where we do not have representation.

Senator ROCKEFELLER. So, the US&FCS is a critical function as far as you are concerned?

Governor GARDNER. Yes, especially overseas, and particularly in the data gathering and information areas. Another important function of the US&FCS is to provide technical assistance, especially to those States which are not as sophisticated as California or ourselves.

Senator ROCKEFELLER. Has the US&FCS helped you with trade fairs or specific market information?

Governor GARDNER. In our case, less so with specific market locations. With trade fairs, yes, absolutely. We have had trade fairs both in Korea and Taiwan, and have had tremendous assistance from their office.

Senator ROCKEFELLER. Senator Wilson, do you have any questions?

Senator WILSON. Than you, Mr. Chairman.

I do not have any questions that are so burning that I would want Governor Gardner to miss his airplane.

I largely agree with many of the comments that he has made. So I will simply commend him and let him go.

Governor GARDNER. Thank you.

Senator ROCKEFELLER. Governor, you made a series of recommendations. You now chair this committee of the National Governors' Association. Was the response that you received from that report helpful in any way? Have you been in touch with US&FCS about it?

Governor GARDNER. Yes.

Candidly, the response we got from the Governors through the States was extremely useful. We have not really worked with US&FCS on the results of the data.

I would ask you, and I have no doubt now that Alex is willing to do this, to encourage both of us to work through that problem and report back to you on that issue.

There is a great deal of useful data and I think a great deal of work that we can do together. My feeling is that the attitude at Department of Commerce is such that the Department is willing and able and wanting to work this problem, and so are we.

Senator ROCKEFELLER. Well, you cannot speak on behalf of West Virginia, obviously, but as Chairman of that committee, you deal with smaller States, or States not on the coasts.

Governor GARDNER. Yes, such as Idaho.

Senator ROCKEFELLER. It would seem to me that that service would be very, very important to smaller States that do not have the export instinct which States like yours and Senator Wilson's would have.

Governor GARDNER. Correct—with the caveat that States now, through the National Governor's Association, have access to what other States are doing on a much greater level and a much greater assistance level than they had previously.

Senator ROCKEFELLER. How, again, Governor, is that done?

Governor GARDNER. That is done either by a State like West Virginia sending their trade people to the State of Washington, to California, to actually work with our people, here and overseas if they choose to do so when they are visiting. There are no trade secrets in this business, so we are glad to make that access and data available/

Senator ROCKEFELLER. That is interesting. You mean that if West Virginia wants to get some kind of help overseas, in Tokyo, for example they could go to your office?

Governor GARDNER. If you, as Governor of West Virginia, had called me and said "I'm going over to Japan. We don't have an office over there, and we have heard that you have access to certain corporations. Would you arrange meetings for us? The answer is yes.

Senator ROCKEFELLER. That is very helpful.

Governor, we are past your time, and I know that you are in a hurry. I will tell Senator Adams, when he comes to introduce you, that he almost made it.

Governor GARDNER. Thank you. And tell him that I said hello.

Senator ROCKEFELLER. And good luck with Clayton Yeutter.

Governor GARDNER. Thank you.

[The statement follows:]

Statement of Hon. Booth Gardner, Governor of Washington, and Chairman, NGA Committee on International Trade and Foreign Relations

Mr. Chairman, as Governor and now as Senator, you have had a unique opportunity to study the new challenges our citizens and businesses are facing in what we now recognize as a global economy. Therefore, speaking on behalf of NGA, we welcome this hearing on the relationship between the states and the U.S. Department of Commerce for promoting trade.

America works when governments at every level work together and support private initiatives. Central to the economic future of our country is how well we cooperate in the international arena.

We must marshal our best resources—our people, our ideas, our knowledge, our skills, our capital, and our determination—to adjust to the new world economy. We must not seek to limit competition, but to become a more effective competitor.

STATE INITIATIVES

This is precisely the approach the states have been taking. We all have international trade promotion programs as one of the newer components of our state economic development initiatives. In most cases, the trade programs are cooperative efforts: the business community joins with the states to establish priorities and carry out programs. In Washington we are looking for balanced economic growth—in both rural and urban regions. We created a public/private partnership of business talent and state agency resources called Team Washington. We recruit business people as Washington State Ambassadors who, during their own business trips and on specially planned trade missions, collect information on businesses planning to move or expand, make contacts for the state, and generally promote Washington in foreign markets. We also use the ambassadors within the state to lend business expertise to local communities' grass-roots efforts. And we put together teams to provide a coordinated response of state agencies to address problems in distressed areas. Our goal is to offer small communities as well as countries like Korea and Japan well-integrated access to state government.

Across the country, states are working to promote trade by small and medium-sized companies, to encourage foreign investment in the U.S., and to promote international tourism. Mr. Chairman, the National Governors' Association prepared a report last year on these state activities. With your permission, I will submit it for the record rather than repeating its findings to you. Suffice to say that states are working creatively on the front lines of the worldwide trade competition. States are:

alerting citizens to the importance of the global economy;

ensuring that sufficient emphasis is placed on international education at the elementary, secondary, college, and post graduate levels;

sponsoring seminars for businesses on export markets and the export process;

linking exporters with professionals who perform export-related tasks (e.g., freight forwarders and international banks);

helping to support important trade institutions, such as world trade centers and port authorities;

promoting joint ventures;

developing detailed market research;

sponsoring trade fairs and missions; and

offering on-the-scene assistance to business representatives traveling abroad through the offices that more than thirty states maintain in foreign commercial centers.

Trade officials in every state have developed many initiatives about which they are justifiably proud. In Washington, international trade is of priority concern to both businesses and the state. Therefore, we are actively involved in trade missions. I personally have led many—most recently, to Japan last month and earlier this summer to Europe. My personal opinion from first-hand experience is that the best interests of not only my state but this nation would be served by actively pursuing an anti-protectionist national trade policy. What this country needs is a trade environment that is fair and equitable to our businesses generally, and which strengthens our posture in requesting similar treatment from our trading partners.

STATE RELATIONSHIP WITH THE DEPARTMENT OF COMMERCE

The blossoming of state international trade programs has helped to create a competence and a source of trade leadership outside Washington, DC essential to the U.S. as a world-class competitor. Given the breadth of their experience, states

should be recognized as full partners with the federal government and the private sector in the drive to promote and expand American trade.

We believe that the U.S. Department of Commerce understands both the contribution states have already made and the potential we still have to realize. They know that government at all levels is overwhelmed on all sides with compelling needs. And they know that states, local, and federal officials all must respond with resource that seem dishearteningly inadequate to the task. In the trade area, the department has taken steps to share the task with the states as well as the resources.

There are many excellent initiatives underway. The headquarters of the U.S. and Foreign Commercial Service has worked hard to bring its district offices closer to the state, to develop joint workplans, to co-locate staff where possible, and to share vital information on trade leads and market potential. A good beginning has been made in the trade data area by the Bureau of the Census. These are success stories in the making. And there are other examples.

There are disappointments, too. In 1985, Governor John Sununu and I surveyed the Governors to determine, among other things, what federal actions they felt would be most helpful in promoting international trade. We sent the results of that survey to the Department of Commerce. We later wrote on the trade data issue, asking for elevation of this matter, which is so important to the Governors, to a higher place on the department's agenda. These are issues that NGA believes remain important and should be pursued.

RECOMMENDATIONS

Mr. Chairman, you have asked for the governors' advice to the U.S. Department of Commerce for improving U.S. promotion programs. Let us offer a few thoughts.

1. Anticipate the changing world.—The world is changing as we sit here, and the U.S. trading position with it. Federal trade promotion officials should always be looking for new ways of doing things. What are the holes in the current U.S. "trade infrastructure" (e.g., financing, especially for small and medium-size businesses, freight forwarding, export trading companies), and how can the private sector be encouraged to fill them? How might the market development cooperator program—a successful private sector/government initiative in the Department of Agriculture that encourages the private sector and the federal government to form partnerships to open new markets, and with which the Department of Commerce is just beginning to experiment—be expanded to manufactures and services trade? How can we simplify the current export licensing procedures to ensure that U.S. companies are strong competitors in foreign markets?

The Department should be a tireless seeker of new approaches and better understanding of the effect of U.S. trade policy on U.S. companies.

2. Redefine the Federal/State partnership.—There are clearly areas now where activities of the states and the federal government overlap. We believe it is time for a "sorting out" of the state and federal roles in promoting international trade to determine where each level of government is most effective. In light of state trade seminars and "how-to" manuals, what should be the federal role in working with new-to-export companies and small businesses? Given state trade missions, in what cases should the federal government sponsor trade missions? How can federal technical assistance be targeted so that states can get the help they and their businesses need?

The Department of Commerce should, responding to the changing global environment, seek to use its leadership position and valuable resources to do what others are not doing. In particular, it should focus on collecting and sharing data with the states on trade trends and on foreign markets. And, it should encourage the creativity of the states in promoting trade and help it develop.

3. Make U.S. trade intelligence the best in the world.—The federal government can provide information about foreign markets, export trade opportunities, and U.S. trade performance much more efficiently than anyone else. The accuracy and timeliness of this data are absolutely essential to the success of American trade initiatives. Trade leads must be available to potential suppliers immediately. Information on exports and imports is needed, and it should be no more than eighteen months old. Detailed market information must be available on our best customers as well as those to whom we are not now selling. And ways must be found to quickly meet the evolving data requirements of the states and the private sector.

States and businesses have asked for information on exports and imports, broken down as accurately as possible as to the commodity involved, the place where the product originated, and its destination. These data are used by states to measure the effectiveness of their current trade initiatives and to target new opportunities. They

are necessary for countless private sector decisions, such as where to locate a warehouse and what size it should be. The Bureau of the Census has made notable progress in this area. But the export data now available is expensive for the states, it is not yet as detailed as many states would like, and a commitment to produce the data on a continuing basis has not yet been made. The state-by-state import data is not yet on the drawing board.

The Department of Commerce should assign its highest priority to producing better trade data for the private sector and states to use as a basis for their trade decisions. The first step should be providing accurate, timely origin/destination figures for exports and imports.

Mr. Chairman, the United States is the greatest trading nation in the world. The Department of Commerce is in a unique position to help it remain so. The states are working to provide direct assistance to businesses on their home turf; we look to the department to provide the leadership we need at the national level and the firm foundation of facts we must have if we are to move in the right direction.

NGA looks forward to working with the Department in meeting the international trade challenges emerging for the Twenty-first Century.

Senator ROCKEFELLER. Senator Wilson, I was wrong to cut in on you, but I had to respect Governor Gardner's time problem.

Do you have a statement to make?

OPENING STATEMENT BY SENATOR WILSON

Senator WILSON. That is perfectly all right, Mr. Chairman.

I want to commend you for scheduling this important oversight hearing on the U.S. and Foreign Commercial Service.

This entity within the Department of Commerce I think can play a very significant role in expanding U.S. export sales.

I regret that I will be here only a brief time this morning because I am compelled to attend a conference on the Defense Authorization Bill. But I assure you that I will review the transcript of the testimony because I think it is important.

Mr. Chairman, I think that one of the best ways the Federal Government can assist the private sector in the promotion of exports is to help at the marketing end. Unfortunately, the idea of improving our international competitiveness through a comprehensive, intrusive, industrial policy has fallen out of favor. However, the Federal marketing assistance that can be supplied is an entirely different matter.

First, it does not allocate resources. Second, it does not even presume to pick winners and losers among U.S. industries, and wisely so.

But many U.S. industries now understand that they have become noncompetitive over the past 10 to 15 years, and they realize that, while some were the victims of unfair trading practices, of dumping and of subsidies, others instead were simply the victims of their own bad workmanship, their own bad management, and their lack of planning, and their lack of aggressive marketing.

For most, these days of complacency are over, and I think U.S. made products steadily have improved in quality in response to competition from imports. They are improving in reliability; they are improving in price competitiveness.

As these efforts continue, a major remaining obstacle to increased export sales is ineffective marketing—ineffective because of often impenetrable foreign barriers.

When those foreign barriers primarily consisted of high tariffs, and in some instances they obviously still do, our trade officials could strive to have them reduced through straight-forward negotiations, often without travelling to the country involved.

Today, with the prevalence of subtle and not so subtle nontariff barriers, official U.S. assistance on site is almost always necessary, particularly for small and medium sized companies. Without the assistance of someone with an understanding of the local customs, rules and regulations, U.S. sellers might not even be aware of the barriers that they are facing.

That is why the U.S. and Foreign Commercial Service has such great potential to expand U.S. exports, and expansion, rather than protectionism, is the key to ending our trade imbalance.

A review of the U.S. and Foreign Commercial Service resources devoted to this important mission shows that our deeds are not matching our rhetoric about the evil of trade deficits. While the U.S. has fewer than 200 commercial officers stationed overseas, we are greatly outgunned by the world's other great trading nations.

West Germany has approximately 240 commercial officers; Canada has 262; the United Kingdom, 400; France, 475; and the not unexpected winner is Japan, with 5,000. That's right—5,000 commercial officers stationed overseas.

Now, while these gross disparities are not unfair as a matter of international trade rules, they are clearly unfair from the perspective of a U.S. company competing against a French company in South America or against a Japanese company in Europe.

The problem is not that our trading partners are doing anything wrong. The problem is that we are not doing enough right.

I want to emphasize that I am not critical of the work actually being performed by the US&FCS. Very much to the contrary, I am critical of the policy decision that has led to its being underfunded, a decision for which the administration and Congress can share the blame.

So, again, Mr. Chairman, I am pleased and grateful that you have called this hearing. I hope that we can build a very substantial record, which will support a substantial increase in the funding for the U.S. and Foreign Commercial Service.

Thank you.

Senator ROCKEFELLER. Thank you, Senator Wilson.

Senator ROCKEFELLER. Alex Good will be coming forward now. He, of course, is the Director General of the U.S. and Foreign Commercial Service.

Mr. Good, I just want to say, as you come to the table, that we are going to be doing this on an annual basis. I want you and your colleagues to know that. I want to be able to come back a year from now, and will come back a year from now, and I will turn to you and ask what is better this year in terms of helping small and medium sized

businesses than last year? What problems were raised last year that have been corrected this year?

What about numbers of people? What about forms and priorities? What about turnover of personel? What about specific services to small and medium sized businesses?

In the State of West Virginia, which is where I come from, we have an interesting situation. In terms of percentage of our Gross State Product, we export more than any other State, with the exception of Alaska and the State of Washington.

On the other hand, in terms of the instinct for exporting in the State of West Virginia, it is not very well developed. You have a very good person, Roger Fortner, in your Service, who is based there. But the absence of an instinct for exporting in a State which is land-locked and does not think of itself as being international—is a problem. I am certain that there is a lot of exporting that could be done but is not currently being done.

Now, I am not going to represent the State of West Virginia in these hearings. I am going to be heavily working with the States of Washington and California and those of any other Senators who choose to come. But I want you to know that I think that you lead a very important entity in government.

It is not well known. Exporting, as Senator Wilson properly has pointed out, is a key function and we just have to close that information gap. Exporting is not going to be done by the government. It is going to be done by businesses, large, small, and medium sized, and a lot of these companies do not know that they can do it. Even if they do know, they, do not know how or do not have the courage to plunge in, which is where the U.S. and Foreign Commercial Service is so critically important to States like my own.

I welcome you here and would just give you notice that we are going to be doing this every year so that we can monitor the progress that I am sure you are making.

But, before I call on you, Mr. Good, I would like to call on Senator Adams, who comes, again, from a State which, like the State of California, is a very aggressive exporting State, and, I might say, an aggressive importing State, too. You have a lot of jobs that depend on imports.

OPENING STATEMENT BY SENATOR ADAMS

Senator ADAMS. Thank you, Mr. Chairman. We certainly do, and I appreciate the fact that you are holding these hearings.

I want to thank you again for the great courtesy that you showed to the Governor of the State of Washington this morning, with whom I discussed this.

One job in six in our State depends upon the export-import business. We are highly conscious of it.

I spoke yesterday to the first Annual Conference of OPIC on the same subject. To me, one of the key factors that we are looking at at the present time is that the United States business community has to join with government and labor to be competitive in these fields, and a lot of work has to be done on basically being able to function abroad.

We see this all the time in the Pacific Rim, and, as I am sure the Senator from California has stated, one of our great problems is to have our local business people and the national business concerns set up their program for really aggressive foreign marketing, which requires cultural and linguistic skills that are only now beginning to happen.

I am optimistic about this. I think we have had a number of people come into this country from abroad who now wish to be citizens here, who have these language skills, and they can give us a transition until our kids have arrived at a point that they can truly operate in Japan, Korea, Singapore, and elsewhere.

This is a very good program. It is a very important time that we talk about it, and I apologize for my lateness. We have doing the Persian Gulf this morning, and I am going to the Rules Committee in a little while.

So, if I leave, it is not out of any disrespect for you or for the witnesses who are here. Thank you, Mr. Chairman.

Senator ROCKEFELLER. Senator Wilson?

Senator WILSON. Mr. Chairman, unfortunately, as I have indicated, I am going to have to go, too.

I want to say that my remarks do not reflect upon Mr. Good. I think, to the contrary, he has been very energetic and I think very effective.

I would simply like to see him get a little help.

The point that Senator Adams just made I think is abundantly echoed in the experience of businessmen, particularly those from the small and medium sized companies who have been operating in the Pacific Rim.

Two years ago last summer, I went with Senator Dole and Senator Moynihan and four of our colleagues—Senator Evans from Washington among them. What we would encounter frequently was the statement from our competitors, our trading partners, that even were we successful in persuading them to knock down some of their tariff and nontariff barriers, our people still would not get the business because we were not good marketers, and we were not good as servicing a contract.

What I found to be more than a little annoying was the number of self-serving declarations that were made by competitors. The quick response to that, obviously, was that well, if we are not competitive, let us in and we will suffer the consequences; but at least let us compete.

But one thing that I think was true in what they said was that in terms of marketing, they knew very well that they did enjoy an advantage, and they were very smug, it seemed to me, about the ability to assert their superiority in terms of marketing.

Now, I find that a little ironic because, traditionally, this is a nation of salesmen. We have taken some pleasure and pride in the fact that, by god, we know how to sell. Advertising really began in the United

States. Marketing has been tough in our business schools for a very, very long time. It is not a new idea.

And yet, because we have for many, many years really depended upon our success in domestic sales and only more recently looked to the world for what it is, a global marketplace, in which we were necessarily competitors for export sales, it is only lately that we have begun to pay adequate attention to that.

I think that this morning's hearing really is an indication that, having awakened to that fact sufficient in 1982 to create the office, we need now to see to it that it really is effective in its functioning, as, in fact, it can be.

This is because we have been laboring at a substantial disadvantage, and one area in which government clearly has a role is to provide that kind of effort that only government can, the kind of breakthrough, the removal of obstacles, the kind of information that really is essential and beyond the reach of most small companies operating by themselves.

Senator ROCKEFELLER. Thank you, Senator Wilson, very much.

Mr. Good, we welcome you here.

STATEMENT OF ALEXANDER H. GOOD, DIRECTOR GENERAL OF THE U.S. AND FOREIGN COMMERCIAL SERVICE, DEPARTMENT OF COMMERCE

Mr. GOOD. Thank you, Mr. Chairman, Senator Wilson and Senator Adams. I appreciate very much the opportunity to perhaps talk a little bit about where we are, where we are going, and what progress we think we have made, and some of the mistakes we have made.

I agree with so much of what you have stated about the timeliness of this hearing, the importance of this service in expanding exports, and we welcome and encourage your continued work with us, both in the formal hearing process, and hopefully, Senators and Mr. Chairman, in between the times of formal hearings, to talk about where we are going and how we can do a better job.

I have a prepared statement, which I would like to submit for the record. It is somewhat lengthy.

If I could, I would just like to address a number of the points that you brought up and then be ready for your questions.

Senator ROCKEFELLER. Your entire statement will be in the record.

Mr. GOOD. Thank you, Mr. Chairman.

Let me first review just very quickly where we have been because I think it is important to know where we have been to know where we are going.

First, what are we?

We are basically a service organization. Ninety percent of our budget overseas goes for personnel and personnel-related activities.

We do not issue consent orders, we cannot tax; we are nonregulatory, nonadministrative. Our reason for being is to assist U.S. businesses. We are a service organization; we are a pecple organization.

As such, it is critical that we have the best possible people.

When we were transferred from the State Department in 1980, we had about 37 career officers who transferred over to our Service. The rest had to be hired.

We have gone out and hired for three things. One, of course, is appropriate educational background. Two is private sector experience. Three is language qualifications.

Let me just tell you where we are.

Sixty-one percent of our career American officers now have advanced degrees—advanced degrees—in international business, law, or economics. In terms of private sector experience, our average officer now has three years of private sector experience. We have a total of 770 years of private sector experience.

I think this is important so that when businessmen walk in the embassies overseas, they have people who have had experience in the private sector, know the kind of problems they are up against, have been on that side of the table and understand those problems. You can talk to them.

That was a complaint about the service that was at the State Department.

Finally, on language qualifications, a full 70 percent of our officers, the highest of any foreign service agency, now are language-qualified in at least one foreign language; 38 percent have language qualifications in more than one foreign language.

The last time I testified I think I said that 70 percent of our officers now spoke at least one language, and they responded that that was a big improvement from the past. At least one foreign language is what I meant.

We have 15 Chinese speakers, 10 Japanese speakers, seven Korean speakers, six Thai speakers, six Malay speakers. Those, of course, are the hard languages.

We also have language qualified officers in Turkey, in Greece, and in Russia.

So that is an important factor for us because we are out in the business community doing business.

On the domestic side of the house, we were established in 1912, and, of course, our domestic officers are governed by different personnel practices, under the General System, as opposed to our foreign officers, who are under the Foreign Service Act of 1980, for their personnel issues.

That is an issue and one that we can talk about in terms of the integration of the Service. But we think we have a very strong domestic service.

Roger Fortner is an example of the strong people that we have, and we want to continue the effort of integrating the two services through training, through cooperative efforts of sending our domestic officers to foreign conferences and vice versa. We have implemented that, I think, Senator, though more needs to be done in that respect. We will work toward a further integration.

If we start with a base of strong people, with appropriate skills and experience, we then need to give them the tools to do business.

The main tool that we need to give them is information. We have, as you noted, sir, developed a Commercial Information Management System, which I am first to admit has a tortured history, but which I think now is very well designed. It will start to go on-line next week and will be fully implemented by the end of the year.

This provides computer link-ups, to provide information from all of our foreign offices. So, if we see a particular trade opportunity in Pakistan, we can get that out through all of our district offices domestically to potential exporters, and to State and to trade associations and to world trade associations, and to other groups that can act as multipliers domestically.

So, the transfer of information is a critical function for us.

We have similarly worked very closely with the multilateral development banks, to have instituted an early warning tracking system, to get more information on bank projects at a time when U.S. businesses, be it construction firms, engineering firms, or consulting firms, can get involved and get part of that business.

We take the information, we take the people, and then we design and hopefully implement programs and services. We have had the privilege of talking about several of those, but let me just mention a couple of them which we have emphasized.

Because of the focus on small and medium sized businesses, we have really pushed on the Foreign Buyer Program, where we actively recruit buyers from overseas and bring them to domestic trade shows, so that our small and medium sized businesses, who are exhibiting domestically, can have exposure in the international marketplace without the costs of going overseas.

We increased the number from nine in 1986 to 15 in 1987, and 18 this year. We expect continued growth in that program, which we think is fairly effective.

We have changed our trade opportunities program, which used to be a subscriber service now, to have every day published in the *Journal of Commerce* advertisements that give information on specific trade leads. These are hard trade leads from overseas. That information is available to any other publication in West Virginia, California, Washington, Illinois, or anyplace else, that wants to publish that information.

Senator ROCKEFELLER. May I ask about that, Alex.

You are referring to this (indicating), I take it?

Mr. GOOD. I am, Senator.

Senator ROCKEFELLER. Now what you are saying is that any newspaper in any State can take this ad, which describes, for example, the primary metals industries, fabricated metals, transportation equipment, measuring, analyzing, and controlling instruments front wheel drive goods vehicles, and power tools, in other words, a whole variety of things, and a whole series of opportunities for exporters?

That is a West Virginia paper, or any paper, could use this free of cost?

Mr. GOOD. Free of charge.

Senator ROCKEFELLER. And they could put it in their paper.

Mr. GOOD. All they have to do is to pay for the telephone hookup for the transmission of the data over wires.

Senator ROCKEFELLER. This would mean that a businessman in West Virginia, for example, could on a daily basis, or a weekly basis, be made aware of a variety of opportunities, and you could target those opportunities for that particular part of the country or the particular strengths in that area.

Mr. GOOD. We have the material formatted by sector. So, West Virginia could decide that we are very competitive in mining equipment and therefore could emphasize that sector, or any other sector, such as hardwood lumber, coal, whatever it is. It could get that information.

Any exporter in West Virginia can now get that information by subscribing to the *Journal of Commerce.*

Senator ROCKEFELLER. But they probably do not.

Mr. GOOD. They probably do not.

Senator ROCKEFELLER. That is your point: you make it available. Then it says if they are interested, let's say, in oilfield machinery or machine and cutting tools, it tells them where to make a contact and the countries that might be interested.

That is very helpful information.

Mr. GOOD. It's all the information that we have, basically. And sometimes we wish we had more information.

Senator ROCKEFELLER. Are any newspapers taking advantage of that?

Mr. GOOD. Well, this service started on August 10 with the *Journal of Commerce*, after a long period of negotiation. So we are basically getting it up and running.

To my knowledge, no newspapers are taking advantage. But there are certain entities, such as the County of Merced, in California, that take those trade leads and specifically focus on particular businesses and get them out to those businesses.

We encourage that.

There is no way that we have the resources to do that kind of intensive effort.

Senator ROCKEFELLER. Local business groups, chambers of commerce, manufacturers, business roundtables could take advantage of that, couldn't they?

Mr. GOOD. Yes, and I think they are.

I think trade associations have been using our TOPS program and will continue with this new format to use it. And we encourage them, to put it out in their newsletters and their communications.

We are generating masses of information from overseas. But that information is no good unless it gets into the hands of the ultimate potential exporter. So those kind of efforts, getting it to the people who can actually take advantage of it, are critical.

If I can elaborate, we are now trying to move into another pilot program, which we are, I think, fairly far along in designing, which would be an intensive effort, Senator, to take the best trade leads that we have from overseas and really give a very proactive effort of having our domestic officers contact at least three companies that we think can sell those, to find out whether the companies are interested. And, if so, to cable back to our post in that country, to let the potential purchaser know of that interest. It is just a very hands-on, aggressive effort.

We are going to try that on a pilot program basis. It is very labor intensive. We think—we hope—it will be very effective.

That is an example of the program.

We also have the comparison shopping, and market research, and agent distributor services, where we will find you an agent distributor overseas, one, two, or three. There is the World Data Trade Reports, which basically are credit worthiness reports. Those are the programs and services.

We have the people, the information, and the programs and services.

Then something which has been focused on here and which is absolutely critical is the work with the States, the counties, and the cities in making the counselling service more available to more potential exporters. Certainly we work with trade associations, with the industry groups, with the U.S. Chamber, with the overseas Chambers of Commerce and the American Chambers of Commerce, and finally with our District Export Councils which I think are a fine example of how the private sector and government are working and have been working together.

We have 51 District Export Councils made up of around 1,800 people throughout the United States that are in the process of exporting and which actually counsel exporters.

So if a businessman is not comfortable talking with our members of the Federal Government who are involved in export promotion, we can give them the name of somebody who is involved in a District Export Council, for them to talk to about particular problems.

Of course, we have wide sectoral representations, so maybe if they are in the wood products area, we will put them together with somebody in the wood products area. We think this is an ongoing program that has been effective. We look at increasing the effectiveness of it, and we are working on that now as we charter a new set of District Export Councils.

I am probably taking longer than I should, but I would like to mention the relationship with the U.S. Chamber and the trade associations as being absolutely critical for us. They provide a great deal of feedback and information that we need on how we can tailor our programs.

To that end, there have been a number of proposals made, and I think the U.S. Chamber made it first, that we establish an advisory committee to specifically give us judgments on how we can do a better job.

There have been some constraints on that, but that process is now well underway. As a matter of fact, I think the Department has signed off on the establishment of an advisory committee under Title V of the

U.S. Code, specifically to give us the kind of judgments that the private sector can about how to increase the effectiveness of our services.

Certainly, in connection with Governor Gardner's comments, we look forward to working more closely with the States. I think there are some difficult issues there.

I think, as I believe I heard from Governor Gardner's testimony, he would have us pull back from some of our basic counselling and some of our basic informational products. I think we need to keep those for States, such as, perhaps, West Virginia.

In terms of technical assistance, we would love to provide that.

I am working closely now with Governor Carruthers in New Mexico, who has a real interest in structuring a State program, to help their exporters and potential exporters.

The State of California has come a long way in a very short period of time. I have had discussions with the head of their World Trade Commission, Greg Mignano, who has basically looked at the Federal program and designed the State program around that—not to duplicate what we do, but to add an export finance facility for small and medium sized businesses in the State, which he thinks is particularly critical.

And so, the challenge for us, I think, at the Federal level is to look at the panoply of what the States are doing and to decide what is the most rational approach that we can take in assisting the States.

I look forward to working with the National Governor's Association and Booth Gardner on that issue.

Finally, as I have said, our services are no good unless people are aware of them. We have developed an Ad Council Campaign. We have a number of the posters here, of advertisements that will appear in, hopefully, 3,500 business periodicals. They have already appeared not only in trade journals, but in the *Wall Street Journal*, in the *New York Times*, in the *Washington Times*.

We have a few examples of these, Mr. Chairman.

[Posters are shown]

Mr. GOOD. This (indicating) is one style. It says "Give Your Heart to Seoul." It is an eye-catcher: "Exporting your artificial hearts and other medical technology to Seoul isn't such a far fetched idea. Exporting means business, increased sales for your special electrical instruments, catheters, syringes, hypodermic needles, and more, all over the world. Don't miss the boat. Call the U.S. and Foreign Commercial Service and discover the profits in exporting now."

That leads the reader to an 800 number, and in that number we take the information and our district offices will then follow up within 24 hours. We have to do it quickly and talk with the people.

We are now monitoring. It has been ongoing for several months now. We are trying to monitor the trades, the leads, to see how it is working and to see if we need to redesign it.

We are working very closely with a number of institutions to have them publish more of these advertisements. We expect this to go on for a number of years, this type of advertisement.

This (indicating) is the other type, which features currencies. Let me just show you some of the others, as well.

This, of course, is another, catchy one: "Send Your Slings to Singapore." These are construction slings. This is an eye-catcher, to get people to read it, and then it goes through the same type of description. "Exporting innovative automotive and assembly equipment to Singapore should not seem so far fetched," et cetera.

We have another style here (indicating), which shows currencies, which says "Export and See the Faces that Launched a Thousand Ships," and of course on the currencies you see the faces. Then it gets you to an 800 number. This is for increasing export awareness.

This is one effort that we made. I might say that it is extremely cost effective.

The advertising work that was done for this was donated. It is pro bono, through the Ad Council Campaign in New York.

The space that is provided in newspapers is done for free. We would encourage all newspapers around the country to carry these ads, hopefully in their business sections, as much as possible. We are working with a number of editorial boards to see that that is done on a more aggressive basis.

That is one small effort that we have in the outreach area, to let our services be known.

Mr. Chairman, let me close here. I have already taken too long. I would reiterate our appreciation to you for your support, for your attention to these matters, and I can assure you that not only will we be here to testify next year, or whenever is appropriate, but we anxiously look forward to that.

Senator ROCKEFELLER. Thank you very much, Mr. Good.

How do you monitor those firms that you bring into this process?

In other words, how do you monitor the results?

Mr. GOOD. I think that is a difficult process, and the GAO thinks it is a difficult process as well.

In our domestic offices, we do reports on every counselling session that we have, and these are called 700 reports, which show a call on a particular company and what the results of the call were and whether they ordered products.

We may get somebody who walks in our door and says gee, we are interested in exporting such and such to such a country, and we sell them an agent distributor service, or give them some trade leads, or get them into contact with an export manager.

Now we may not see that person again. But we may. There are a certain number of what we think are our top candidates which we will work with on a daily basis—well, not daily, but on a weekly basis—and we will keep in touch with them. We will know how well those particular firms do.

But, across the spectrum, we have a wide array of "How to Export" seminars, in which we discuss our products and services and give out packages on all that we do. We may never learn that somebody has taken advantage of our services, gotten into the export marketplace, had an agent-distributor or got an agent-distributor and is making sales.

We may never know that.

It is very difficult, even on trade missions, to follow up with particular companies, to find out how much they sold. We usually do that with particular trade missions that we take overseas. We do that.

We usually get good data. But often, you know, maybe they will make a sale a year later from a contact, and we will not have that in our followup information.

Senator ROCKEFELLER. There are approximately 300,000 businesses in this country which do manufacturing, and a relatively large percentage—but not as large as it could be—is into exporting.

I think the Commerce Department figures indicate that, at the present time, there are about 30,000 more businesses across this country which could be exporting, whose talents, resources, and products lend themselves to exporting.

I am sure many of those might be in my State of West Virginia.

How is it that a small or medium sized business in West Virginia, which may have up to 1,000 employees, but more likely has less than 100, can find out about the service that you offer? How do they come to know that they can be in the exporting business?

How do you specifically go after them?

Mr. GOOD. It is a constant effort, and perhaps we can do a better job. But the way we do that is through a number of vehicles used to get the information out on what we have available.

We will have a new compilation of all of the domestic seminars that we hold annually on basic exporting, and I can submit that for your files.

Also, we speak before Kiwanis clubs and before local groups, whatever groups are available to hear the message of the services that we offer.

As I said, we have a list of all the seminars that we do domestically on not only basic exporting, but on export controls or selling into Japan or into specific countries.

Senator ROCKEFELLER. Are those seminars done in Washington?

Mr. GOOD. No, no.

Senator ROCKEFELLER. Throughout the country?

Mr. GOOD. Yes.

Each district office does its own seminars, and each district officer is responsible for outreach.

In addition to that, we place public service advertisements in the newspapers, in the broadcast media, to get the word out.

We have the District Export Council, which, as I said, is made up of usually 35 individuals who we think are leaders in the business community, which co-sponsor seminars with us and programs on how to export. We are featured in newspapers, when they choose to feature us, on the services that we provide.

We train each of our domestic officers in public relations, in working with the media, in an effort to encourage them to get out and be more outspoken about the services that we offer.

We work closely here with the Ad Council in being more aggressive on the outreach front.

We have a Memorandum of Understanding with the Small Business Administration in each one of our offices, each one of our regions, so that people who come into the Small Business Administration, who might have a product to export, are either given export counselling by the Small Business Administration in cooperation with us or are sent by SBA to our offices so that we can counsel them.

It is really a grassroots effort, using a number of different techniques and using a number of different media, to let as broad a segment of society know as possible.

Similarly, we work closely with trade associations, particularly those trade associations that we think have the greatest potential for export. We let them know of our services and the opportunities.

Then, finally, we work cooperatively with the State governments, with the States, who may be doing very much of the same type of activity. They may not be doing that, but in many instances, we are co-sponsoring conferences on how to export. And, hopefully, the word will get around.

Senator ROCKEFELLER. Can you think of some examples in the time that you have been Director General, some classic examples of businesses which should have been exporting, didn't know they could have been exporting, and then they ran into your services, discovered their opportunity and did something about it, and, as a result, created jobs in their States?

Mr. GOOD. I think there are a number of those, Mr. Chairman.

In my own personal experience, I was fortunate recently to participate, or to be in Paris, for one of the major apparel manufacturers trade show. Now, you do not think of apparel from the United States as being one of our major exports. And yet, we had a number of small businesses there that had, you know, custom leather goods, and belts, and Western wear, that we had basically recruited for the first time to participate in this trade show.

Our biggest problem in that show was that our exporters were selling out their yearly prodution so quickly that they wanted to close their booth after one day of a four day show and go home, so that the U.S. Pavilion looked like it was closed. They were overwhelmed.

I am speaking personally with many of those people. Every one of them assured me that they will not have to wait for the Department of Commerce to call them again to get them into that trade show. They will be there of their own volition because of the tremendous response they had. I think it was an overwhelmingly successful show.

That is just one indication. We have a number of shows, which we call "Matchmaker' Shows, where we specifically go for the new to export, new to market firms, the small firms, and bring them together with agents and distributors overseas. We have a fairly good hit rate, if you will, on at least matching them with export managers or agents and distributors overseas, and they get involved in the marketplace.

Senator ROCKEFELLER. Mr. Good, if you are advertising as you indicate here, then you are making the general services of the US&FCS known. That does not necessarily mean that those who respond to that advertising or to that information are small or medium sized businesses.

For example, a few days ago, I put on a defense procurement seminar in southern West Virginia. It was very interesting. There were 100 or so medium and small businessmen there. There was a feeling, I felt, that people looked at the world of military procurement, and they decided that it was for the big boys. Even though they might be interested, and even though the military is in the business of purchasing almost everything that anybody uses in this country—soldiers and sailors and airmen eat and wear clothes and get haircuts—they feel that the supply of those services and products are for the big boys.

Now, do you target small and medium sized businesses in these efforts? You cannot target if you advertise. You can appeal if you advertise. How do you go after that small businessman, with maybe has only a hundred employees, or the medium sized one?

Mr. GOOD. Mr. Chairman, I think you have correctly assessed it. Our programs and services are available to any business, regardless of size. We find, however, and in our planning of the programs and services which I have mentioned, the agent-distributor service, the comparison shopping service, those are targeted basically to help small and medium sized businesses. By and large, the multinational companies, the companies that have a broad base in exporting, they don't need that assistance.

What we are doing is we look across the board at what are the barriers that keep small businesses out of exporting, and how can we, as a government, help them over those barriers?

So, our programs and services are designed for the small and medium sized businesses primarily. Some large businesses do take advantage of some of those services.

In terms of how do we actually get at those businesses, the small and medium sized businesses, we do a number of things.

First, of course, we are working with the Small Business Administration. We have a Memorandum of Understanding. We cosponsor seminars. We have a list of people that are working with the Small Business Administration to get the word out specifically to small businesses.

We, of course, are anxious to work with trade associations on smaller businesses. We work through an Industry Sector Advisory Committee, Number 14, which is the formal advisory committee at the Department of Commerce on small business, specifically about how to get out to their membership and their particular sectors the word on what we are doing for small businesses.

I think it is fair to say that throughout the United States, our domestic officers are geared specifically for small and medium sized firms.

Sure, if a large firm comes in and needs information or wants to participate, we are delighted. But that is not where our time is spent.

We will work cooperatively with the State to get lists of businesses in the State, small businesses in the State, by sector, to try to reach out to small businesses.

That is how we are going about it now.

Senator ROCKEFELLER. You have described an aggressive program, and you have been there about a year and a half now.

Mr. GOOD. Two years.

Senator ROCKEFELLER. Two years. You obviously have objectives. There are things that you want to do in the next year that will help promote your program, help attract more businesses.

The Wall Street problems of yesterday and the day before are attributed to the "twin towers," of the budget deficit and the trade deficit. I think everybody has known that for a long time, and people here in Washington have declined to do anything about it.

The trade deficit is something you are directly involved in, in the sense that you can help bring it down through your services' activities both here and overseas.

What are your objectives tfor the next year? In what areas do you want to see improvement in the U.S. and Foreign Commercial Service over the coming year?

Mr. GOOD. Mr. Chairman, if I might, I think my assessment, my honest and candid assessment of the Service right now is, given the resources that we have, our counselling functions, our programs and services are fairly well designed. We are looking to modify them, to make them even better.

But what I would really look for is a greater push with the outreach efforts to make our services more known to more people, and through the Ad Council, we are contemplating a direct mail campaign. We are contemplating a more aggressive public service announcement campaign, and a lot of that will be done with multiplier organizations.

The second thing is directly related to that and it has been a subject of discussion here, and that is working with State and local governments to expand the number of people that are counselling small businesses on opportunities overseas, to make known our services so that people come in and take advantage of those services.

I think, with Governor Gardner now, as the head of the International Trade Task Force of the National Governor's Association, I would look for an aggressive working relationship with the States.

Some States are more reluctant to get into it. Some see a higher potential for them.

Senator ROCKEFELLER. What about the States that are more reluctant to get into it? Why are they reluctant? What problems have you seen?

Mr. GOOD. I think there is a question about how important it is for a State government to undertake the role of export promotion. To be candid, most of the State offices overseas, as I think Governor Gardner has alluded to, have done inward investment promotion primarily, as opposed to export promotion.

Senator ROCKEFELLER. That is interesting.

So they are more interested in spending time with folks in Tokyo or Brussels or Paris, in terms of promoting investment opportunities back in their States, than in creating opportunities for businesses in their States overseas?

Mr. GOOD. That would be my characterization.

I have visited a number of these offices. I have worked closely with the Council of American States in Europe. While they do export promotion and let people know of opportunities, the overseas offices in my experience are more aggressive in trying to promote inward investment. And I think it is understandable that they would be.

Quite candidly, I do not think there is a State in the Union that has the resources to set up the kind of network that we have overseas for export promotion. So I see the Federal Government's real comparative advantage as in the overseas information and trade assistance overseas. The States' comparative advantage is in working with the businesses that they know, that they are familiar with, that are within their borders.

We are moving more and more to a Federal Government who becomes a wholesaler of that information and counselling service, and with States that are becoming the retailer, if you will.

This breaks down in certain States because the States are not willing to put effort behind the outreach efforts. And so, we continue to fulfill that function.

If the States were willing to pick that up and allowed us to dedicate the resources that we now have domestically overseas, I think the Nation would be better off. We would have a more aggressive, more compatible program. But I do not see that happening in the near-term.

What we have been trying to do with a number of our State-Federal programs is march in a direction which shows the States what advantages there are to getting their firms actively involved in the export marketplace, and move in that direction and see how we can help.

We have a pilot program now with seven States through the National Association of State Development Agencies, which are looking specifically at what we, in the Federal Government, are doing and what they in the States are doing, and how we can be even more effective over time.

Senator ROCKEFELLER. Do you happen to know off the top of your head which are those States?

Mr. GOOD. Let's see—Connecticut, Alabama, California. Mr. Mefford, my domestic person, may know.

Mr. MEFFORD. Maryland, Alabama, Minnesota.

Senator ROCKEFELLER. In other words, you took the initiative to get together with them, to see how you could mesh with them?

Mr. GOOD. It is a joint initiative.

We have joint training programs, to train our officers and export counsellors, both the State and the Federal. We are sharing information. We are letting the States know what information is available to them.

The States are very interested in having access to our Commercial Information Management System. And, Mr. Chairman, I am delighted and anxious to give it to them.

But, I want that system to be up and running first. I want to take it step by step. It has been a tortured history, going back to the late 1970s. That system has not worked, and I want to make it run first. Then we will give it to the States, the counties, the cities, and make that information available.

It should be available. We are giving them the raw data, if you will, and they should take that raw data and hopefully work with their industries.

I think there is a great deal of concern, quite candidly, when you look at State and Federal cooperation, about those States that are not willing to do as much as some of the more aggressive States. Washington's economy is so dependent on exports that of course they are going to be aggressive. And I think California has recognized that. And other States as well, such as Indiana and Connecticut.

But for those States that are not as aggressive, what is the appropriate role for the Federal Government?

Senator ROCKEFELLER. And what do you do about going to the States which you judge to be somewhat less aggressive about exporting, where you think that your Service could be helpful in bringing the opportunities for exporting to their attention?

In other words, you do not just wait. You send out advertisements, and you have information available. But at some point, there has to be initiative on the part of the State or on the part of small and medium sized businesses within that State to use your services.

Over the course of the next year, what do you want to do better or more aggressively in that respect?

Mr. GOOD. What we have been doing, and I think it leads to where we are going—and I don't want just to talk history—we have a State-Federal agreement with every State in the Union, I believe. There may be one exception. This basically identifies what we do versus what the States do. Over time, we would like to have those agreements move to provide for a greater role for the States in the export counselling of their firms, in providing joint seminars on how to export, joint outreach activities, and joint training programs.

I think we have made some progress in the past few years, and we would like to push that forward.

In the State of Oklahoma, we have a very aggressive, cooperative effort where we have officers that are colocated in the same office building. Our officer knows about the State programs; the State officer knows about the Federal programs.

It works wonderfully, and our Inspector General has looked at that and found that that is one of the best cooperative working relationships that they have found. That is the kind of model program that we are looking for.

I am now working with the Governor of New Mexico in that area, and will be hopefully working out a similar environment. We have a vacancy in our office in New Mexico, and we are holding that vacancy to look at all the potential ways that we can do a better job, including perhaps hiring the State as a contractor to do Federal Government services, in order to encourage them into the international marketplace.

I think Governor Carruthers has been very active. We are not just willing, but are anxious, to work with governors to rationalize and dovetail our programs. Boy, we are delighted when we get those calls that they are interested in doing it. I do not want to call the States "reluctant bridegrooms," but, in fact, I think Governor Gardner would have characterized them as such, until very recently. Things are changing quickly.

So we are willing to move just as quickly as they are to provide information from our many, many posts overseas, to get that information distributed domestically.

Senator ROCKEFELLER. One final question, Mr. Good.

There is, in fact, a very large difference between a medium sized business and a small sized business. A medium sized business would be about 250 employees to 1,000, while a small one would be under 250.

What happens when you are promoting export opportunities may be different than the response that you get to that promotion.

Do you find that the small businesses are, on a percentage basis, much less secure about going after export opportunities, even though your data and your information shows that they could be making money from export opportunities?

Mr. GOOD. I would guess, as a generalization, that that is correct. But, from empirical evidence, as opposed to a statistical analysis—and I might say on statistical analyses that we went back to our data bases to determine exactly what information we had on what small businesses were exporting and could do a better job at exporting. Since we did not have as much data as we felt was necessary, we have now commissioned a study basically to look specifically at what small businesses can and should be exporting.

A lot of small businesses in this country are dry cleaners and corner grocery stores, and we do not think realistically that we should expend much effort working with those people on exporting.

But we do think there are a lot of small businesses in the apparel and mature industries, and certainly in emerging technologies that could be competitive overseas.

Sometimes, when we go and meet with these small businessmen, we say we think you could sell that product in France. This guy is in Ohio, and he says hey, I am not selling in Pennsylvania and I am over my capacity. It is difficult for us to say well, you ought to worry about the currency and you ought to worry about the Customs, and you ought to worry about the export controls and you ought to worry about the import restrictions until their production level meets domestic demand.

We have an account executive type of organization in the domestic service, and when we counsel and spend a lot of our time with particular businesses, we are looking at a number of factors which to us indicate an ability to successfully export in terms of capitalization, the track record of the firm, the domestic demand, the domestic percentage of market or growth in the domestic marketplace.

Now, this will not apply for every business. There will be some businesses that may make a product specifically for export. It may be designed in voltages for European currents or may be designed under the metric system specifically for export.

In those kinds of businesses, we want to work very aggressively with them. But we find that a lot of the small businesses that have a strong demand for their product cannot meet, until they build up their capacity, the domestic demand. It is very difficult, notwithstanding that their product may be competitive overseas, to persuade them to take the necessary steps to sell overseas, to get the letters of credit, to get the export financing, and do those things, until they meet domestic demand.

I think we find a lot of small businesses that do have the capability of selling to those overseas markets. But they simply have not met domestic demand yet and are not likely to go overseas until such point as they start to saturate or at least believe they are saturating the domestic demand.

I think that is an issue with the very small firms. It does not tend to be as much of an issue with the larger and medium sized firms. The medium sized firms hopefully have their capabilities up; hopefully they have enough money so that they can redesign a product, if necessary, for different standards overseas, for example, if they believe there is a market.

That is what we try to work with them to do, to persuade them that they have a market if they take the steps to redesign that product, to make sure that the quality is appropriate.

Senator ROCKEFELLER. Very good.

It is now almost 11:00 o'clock.

I want to thank you, Director General Good, for coming in here. We will be in close tough with you.

I have a number of additional questions that I will submit to you.

We will work together and monitor this and will see you again in this room about a year from now.

Mr. GOOD. Thank you, Mr. Chairman.

Senator ROCKEFELLER. Thank you very much.

[The statement and questions and answers follow:]

STATEMENT OF ALEXANDER H. GOOD, DIRECTOR GENERAL, US&FCS

Mr. Chairman and members of the committee: I am pleased to have this opportunity to discuss the export promotion programs of the Department of Commerce with this subcommittee. The International Trade Administration (ITA), in particular the U.S. and Foreign Commercial Service (US&FCS), is the primary U.S. Government export promotion organization responsible for facilitating exports of goods and services produced by U.S. businesses. Our mission is to promote U.S. exports, expand the number of exporters, and assist U.S. companies in the international marketplace.

The US&FCS is strategically positioned to accomplish this mission with a global network of over 1,200 trade professionals in 127 commercial offices in 66 countries, and 48 district and 19 branch offices in the United States. In addition, to expand our outreach to U.S. business, we have developed an extensive network of affiliated "multiplier" business organizations and have forged a new Federal-State partnership. We now work more closer than ever before with other government agencies, such as the Ex-Im Bank and the Small Business Administration (SEA). While this network exists to champion the commercial interests of all U.S. firms, the prime beneficiaries are small and medium size businesses.

We believe that this approach has merit because of the importance of small and medum size companies to our economy and because of the contribution they make to our international competitiveness.

Our export promotion programs and services can be divided into five areas:

1. Awareness of export possibilities;
2. Export counseling;
3. Market identification and assessment;
4. Trade contract services; and
5. Overseas export promotions.

Through these services, companies learn about trade and investment opportunities, foreign markets for their products and services, international marketing strategies, export financing and insurance, international trade shows/missions, business facilitation services. They also learn about trade dispute assistance and export licensing assistance.

Recently we have taken a number of steps to strengthen our services and products and improve small and medium size firms' knowledge of and access to our services. We are increasing our outreach activities to make more U.S. firms aware of the benefits of exporting and of the services we offer, enhancing our own productivity through the use of computerized information systems, improving our services, and working closely with the States, other operating units of ITA, the private sector, and other Government agencies. These efforts are already paying dividends—small and medium size business participation in our export assistance programs is up sharply from last year.

Before I describe some of the innovative things we are doing to promote exporting, let me briefly touch on two key factors that have contributed to our success thus far: the quality of our employees and our excellent cooperation with the two other ITA promotion units—trade development (TD) and international economic policy (IEP).

Collectively, our overseas officer corps has over 770 years of private sector experience. Over one-half of our officers have at least three years in the private sector; sixty-one percent have advanced degrees in business, international relations or law. Our officers speak 20 different languages, and we have 15 Chinese speakers and 10 Japanese speakers. Seventy-eight percent speak at least one foreign language; thirty percent (54 officers) speak two or more foreign languages.

Because each operating unit of ITA has responsibilities that help U.S. business, it is essential that our efforts be closely coordinated.

Trade development, whose responsibility for policy analysis and promotion is arrayed by industry sector, works with the US&FCS to identify industry sectors that are competitive and which offer potential for export expansion. TD industry specialists collect and collate industry specific marketing intellgence from a wide variety of sources, such as US&FCS posts, and disseminate it generally through industry trade associations and directly to firms known to be involved in critical export sales competitions. In cooperation with IEP and US&FCS, the industry specialists advise and counsel company representatives on market opportunities and the challenges to winning export sales and plan, recruit and operate a wide variety of exhibitions, trade missions, catalog exhibitions, sales seminars abroad, and domestic conferences on export trade development.

International economic policy, organized by region/country, has a major role in trade policy formulation. It works closely with US&FCS to develop information in

support of new policy initiatives, trade event planning and operation, and for use in business counseling. IEP country specialists analyze economic and commercial reporting from US&FCS posts and keep abreast of business and economic conditions that bear on U.S. trade and investment opportunities. The resulting commercial intelligence, combined with US&FCS overseas market research, is then provided to the business community through US&FCS district offices.

The upcoming matchmaker trade delegation to London and Paris is a good example of what close cooperation between US&FCS, TD, and IEP can produce.

Matchmaker trade delegations, which provide participants the opportunity to meet personally with prescreened overseas contacts, are specialized events designed to satisfy the marketing requirements of all members. The US&FCS has the lead for this matchmaker event in the field of high-tech electronics. However, it is only because of the aggressive recruitment assistance provided by trade development and the valuable commercial intelligence and contacts provided by international economic policy that we are able to assure the success of this 80-plus member delegation, the vast majority of which are small companies.

Now, let me tell you about what we are doing to more aggressively promote exporting by U.S. business and to make U.S. companies more aware of the services we offer.

1. *Awareness of export possibilities.*—To promote exports, we must first increase U.S. firms' awareness of our trade information, contact services and promotional event offerings. Our objective is to reach a broad business audience through advertisements we place in the popular press, publications we produce, and the seminars we conduct.

We have launched an extensive advertising campaign to reach a broader segment of U.S. business. We are working closely with the Ad Council, a non-profit organization, on a series of ads which have started running in major daily newspapers, business publications and trade journals. Ads urging U.S. firms to "send your hearts to Seoul" and "send your slings to Singapore" have been distributed to 4,000 major daily newspapers, business publications and trade journals and began running in January, 1987. To date almost 125 newspapers and business periodicals have volunteered space for these ads. To respond to inquiries generated by these ads, we set up a toll-free telephone number. We are very pleased with the response to this effort and have extended our contract with the Ad Council through June 1988.

In addition, we are planning a major export awareness building initiative, focused on our new commercial information management system (CIMS), which involves a wide range of promotional techniques, such as direct-mail campaigns, targeted articles in industry publications, and public service radio spots. We are working with Business Week to promote CIMS and are cooperating with Inc. magazine, which is planning a stand-alone exporting supplement in October, 1988. These efforts will give us the national exposure to prospective small business exporters that we need, at little or not cost to the government.

We have also worked closely with other government agencies to expand our awareness efforts. United States Information Agency (USIA) has promoted several of our foreign buyer program events through "Worldnet Broadcasts." In January, USIA showcased the National Association of Broadcasters Show and International Exposition to standing-room-only crowds of top broadcast industry professionals and journalists gathered in U.S. embassies in Europe and Latin America. Many of the attendees signed up on the spot to attend the event. USIA plans three more broadcasts promoting 1988 foreign buyer program events.

We also produce a variety of publications which focus specifically on the advantages of exporting, sources of export financing and assistance, and the variety of trade information, contact services and promotional techniques available. A good example is the newly revised "A Basic Guide to Exporting," A "How-to manual on the mecanics of exporting for new-to-export companies which is particularly useful to small business. We were able to get free publicity for the new guide in the February 10, 1987, "Money" section of USA Today, which reached four million readers. The business community's response has been enthusiastic—more than 20,000 copies of the "Basic Guide" have been purchased to date.

This year, we will stage over 3,400 domestic seminars on subjects ranging from the basics to how to export to special country-oriented topics. The seminars are held in small towns as well as metropolitan areas. Their audiences are primarily representatives of small businesses.

2. *Export counseling.*—Professional counseling is one of the most important ways to promote exports. This year our district office trade specialists will conduct more than 143,000 counseling sessions with individual firms, associate offices, and state and local government organizations. Overseas our commercial officers will conduct

another 125,000 counseling sessions. Based on previous years, 90 percent of all sessions will be with firms having fewer than 250 employees.

Our trade specialists also assist companies to obtain and understand exporting information. Such help is of priority interest to firms first entering foreign markets. Subjects covered include planning and management fundamentals of international marketing, setting terms of payment, negotiating agent/distributor agreements, and dealing with language and business customs of a particular country. We also help small companies gain access to financial support from the SBA, Exim Bank and other organizations such as the World Bank and its affiliated development banks.

3. *Market identification and assessment.*—A wide variety of US&FCS statistical information services and market research reports give small and medium size companies the information they need to identify and assess potential export markets for their products and services and the market conditions they will encounter. Statistical and market reports include information on shipments compiled by the Bureau of the Census and United Nations, ITA publications such as Overseas Business Reports (OBR) and Foreign Economic Trends (FET), as well as in-depth international market research reports.

We have recently narrowed the focus of our research from broad industry reviews to product- and sub-sector specific studies, increasing its value to the business community.

We also developed a new service called comparison shopping which provides a firm with concise, customized answers to key questions on its own product: overall marketability; names of competitors; comparative prices; customary entry, distribution and promotion practices; factors that may influence competitiveness; and information on trade barriers. Small and medium size businesses tell us this new service is vital to their export efforts by providing needed information in a timely manner without the cost of foreign travel. This service is being expanded and will soon cover 30 countries around the world.

To compete in world markets, U.S. companies must have access to timely and accurate commercial intelligence on overseas market opportunities. Computerization of export market information is the key to enhancing U.S. firms' ability to compete in an increasingly competitive world marketplace. We are now installing our new computerized trade information system—the Commercial Information Management System (CIMS). This state-of-the art computer network fully automates the flow of information between overseas US&FCS posts, district offices and headquarters, and eventually, to important multipliers like the States.

With CIMS, we will improve access to information by internal users, speed the flow of information to the business community and significantly enhance the counseling capability of our officers by providing them with the tools and the information to custom-tailor information to the needs of U.S. companies.

The new CIMS software is now complete and we have begun the process of bringing up the domestic office network. Employee hands-on training, an essential key to the success of CIMS, has begun—first for the domestic CIMS training team, last month. Training sessions for our foreign trainers will start in November. Following these sessions, CIMS trainers will travel to the offices in their region to conduct on-site training for local staff.

4. *Trade contact services.*—Our new CIMS system will also automate delivery of US&FCS trade contact services—special programs designed to help small and medium size companies locate sales leads; identify and select foreign buyers, agents, distributors and importers; advertise new products overseas; and qualify prospective trading partners. The trade contact assistance services that we offer U.S. companies through our global trade network include:

Trade Opportunities Program (TOP).—Sales leads gathered by our overseas posts are sent to Washington where they are made available to the business community almost immediately. We have recently improved this program dramatically. We now provide trade leads electronically to over 15 private sector or State "multiplier" groups, like the county of Merced, California, who either publish the leads or redistribute them electronically to their members. This number is growing daily, and has increased the numbers of firms receiving leads from just 4,000 to over 130,000. The Journal of Commerce with a circulation of 25,000, is a prime example of how private sector distribution has effectively broadened our outreach. On August 10, 1987, the Journal of Commerce began publishing all our trade leads every day on its new trade page. The Journal of Commerce is delighted with the reader response.

We have also instituted a new pilot "Hot Tops" program, whereby trade leads with the greatest potential for U.S. firms are personally distributed by our district office trade specialists.

Agent/Distributor Service (ADS).—This Service helps U.S. companies locate interested and qualified overseas agents and provides for an initial introduction to them.

Export Mailing Lists (EML).—These computerized mailing lists provide U.S. firms with information about foreign firms in specific markets.

Commercial News USA.—Each issue of this monthly publication promotes the products and services of U.S. new-to-export, new-to-market firms to over 95,000 interested overseas agents, distributers end-users, and foreign government purchasing officials. That's a 27 percent increase in circulation over last year. During fiscal year 1988, over 1,400 firms will use this service, almost 90 percent of which will be small. And, for the first time we will have three State/regional cooperative issues—California, and the New England States have already signed on.

World Trades Data Report (WTDR).—WTDR's help a company qualify foreign firms as prospective business partners by providing background information on them to interested U.S. companies.

International Development Bank project alerts.—We have greatly expanded the flow of "early warning" notices to U.S. engineering firms and equipment suppliers for projects financed by the Asian and African Development Banks. Our senior commercial officers in Manila and Abidjan regularly supply project information and updates to our district offices and overseas commercial staff. Working with trade development's major project division, we have established a similar capability with the World Bank and Inter-American Development Bank (IDB), here in Washington. In addition to providing contact information, we often get directly involved. In Argentina, for example, the US&FCS, twice intervened with Argentine procurement authorities to save a $16 million award for an energy management system financed by the IDB for the Ferranti Company of Austin, Texas.

5. *Trade events.*—US&FCS offers a large program of trade promotion programs designed to give U.S. firms a variety of opportunities to showcase their products to overseas prospects. These include:

Foreign Buyer Program (FBP).—This highly effective program brings U.S. firms together with qualified foreign buyers at leading U.S. trade shows, saving U.S. firms the high cost of overseas travel and freight necessary to exhibit overseas. Last year over 2,700 new-to-export, new-to-market firms participating in the 15 FBP events met over 51,000 foreign business visitors. Many of these firms received special export counseling from our trade specialists before, during and after the show. This year we will expand the number of FBP shows by 45 percent over fiscal year 1986. We hope to triple the number of FBP shows in fiscal year 1989.

"Matchmaker Trade Delegations".—"Matchmakers" are another exciting new program especially adapted to the needs of small and medium size, new-to-export companies. These are trade delegations composed of 15 to 100 executives designed to match participants with potential agents, distributors, licensees, franchisees or joint venture partners. A special feature of each event is an on-site marketing seminar and individual appointments with pre-screened pospects. In some cases, the SBA has co-sponsored these events. During fiscal year 1988 we expect to assist almost 200 companies through this program.

Overseas exhibitions and trade missions.—Last year over 2,800 U.S. firms participated in 99 major exhibitions and 43 millions staged by ITA on a cost recovery basis. Over 80 percent of these firms were small or medium size. Although firms are often reluctant to inform us of their results, over $200 million in off-the-floor sales, 62,000 trade leads, and over 1,100 agent, license and joint venture agreements were reported.

In addition, each year we provide overseas logistical support to 20 or more overseas travel trade workshops, trade fairs and catalog events in support of Commerce's U.S. Travel and Tourism Administration, with which we have a special memorandum of understanding.

Catalog and video-catalog exhibitions.—Our catalog and video-catalog shows offer firms excellent low-cost opportunities to explore overseas markets. Last year we staged 18 of these events, providing almost 700 U.S. businesses (74 percent were small or medium size) the chance to display their goods in 100 countries. These exhibitions generated 21,000 trade leads.

State/industry organized government approved (S/IOGA) missions.—We also provide logistical support to trade missions organized by States, local governments, chambers of commerce, trade associations, port authorities and other

export-oriented groups through our S/IOGA Mission Program. Last year we supported 34 S/IOGA missions—26 percent more than in 1985.

Trade Fair Certification Program.—We also support private sector trade show organizers of selected overseas events through the certification program. This technique has proven very successful in the People's Republic of China. Expo-Hitech Shanghai '86, gave 35 U.S. companies prime exposure to high level Chinese purchasers—in fact, 85 percent of the equipment shown was sold off-the-floor. Recently we have improved this program and hope to double the number of certified events held over the next 12 months.

COOPERATION WITH MULTIPLIER ORGANIZATIONS

We recognize that there are limits to what we can do working alone. Therefore, a key strategy for the future is to work more closely with important multipliers:

1. District export councils (DECS) and associate offices;
2. State and local governments;
3. Small business administration;
4. Other Federal agencies.

Collectively, these multipliers have the resources and the motivation to greatly expand our impact.

We are also moving forward to establish a closer working relationship with the U.S. Chamber of Commerce and hope to establish a Federal advisory committee for the US&FCS.

1. District export councils and associate offices.—The 51 *DECS* (comprised of 1,500 business leaders, many from small businesses) are a powerful force in promoting greater export awareness. The DECS work closely with our district offices, providing export counseling, running public service programs to encourage firms to export, formulating positions on important trade issues, and sponsors export seminars, workshops, training conferences and World Trade Week activities.

Our 700 plus associate offices include industry associations, educational institutions and trade and business organizations, and the 31 small business development centers. They all play an important role in building export awareness, and channeling commerce export information to their members.

2. State and local government.—The States are a major focus of our efforts. We have forged a new Federal-State partnership to encourage a greater State role in export promotion. Under this program each US&FCS district office has signed a partnership agreement with its corresponding State.

A keystone of this cooperation is our seven-State pilot program with the national association of state development agencies (NASDA). This effort is designed to forge a stronger partnership between Federal and State trade promotion entities by combining resources and sharing information. Activities include: joint client visits and client referrals, cross training, joint work plans and newsletters, sharing trade data and leads, co-sponsoring trade shows, missions, conferences and seminars, exchanging personnel and, in some cases, sharing office space.

Connecticut, a pilot State, is a good example of how we work together. Our regional managing director in Hartford participated in Connecticut's fall 1986 trade mission to China. He then assisted the State in following up with U.S. firms that identified possible business opportunities in China. In addition, our Hartford district office and Connecticut's State offices plan to share office space in the Hartford World Trade Center when it is completed.

One area of Federal-State cooperation that we are especially excited about is promoting State-sponsored export financial assistance mechanisms for small business. through our State agenda for exports (SAFE) program we are addressing a major export obstacle confronting small business—obtaining export financing through normal commercial bank channels. SAFE is a State-legislated finance program which has two components—a State export council and a State finance authority. Our role is to provide States with information packages detailing how to establish a small business financial assistance program—including, sample legislation.

We are also working with the National League of Cities and the World Conference of Mayors to develop their international trade capabilities.

3. Small Business Administration.—Our new memorandum of understanding with SBA is an important step in making us more responsive to the needs of the small business exporter. Now both SBA and Commerce are positioned to achieve a common goal—to reach more high-potential small business exporters and better assist their efforts to enter international markets.

While there has been much cooperation with SBA in the past—our Pittsburgh district office, for example, made referrals to SBA for pre-export financing resulting in over $3.6 million in export sales—this new commitment to cooperative support for

small business has taken on new meaning. Together, we will create a State-by-State, nationwide infrastructure support system for small business exporters.

The MOU outlines a carefully orchestrated and aggressive program at both the headquarters and local level to assist small business, including jointly sponsored seminars/workships, newsletters and brochures, trade promotion events, trade information sharing, training programs, coordination and planning meetings and exchange of advisory committee representatives. Next year for example, we will joint with SBA in sponsoring 10 regional small business exporting conferences around the country.

Each district office director and regional managing director will be responsible for inviting comment on an coordinating activities defeined by their annual work plans. For the Department of Commerce/ITA, the Deputy Assistant Secretary for Domestic Operations, US&FCS, will have the joint coordination responsibility. For the SBA, the Associate Deputy Administrator for Special Programs will have the joint coordination responsibility. We are excited about strengthening our relationship under this MOU and look forward to its implementation. For the record, I am including a copy of this agreement.

4. Other Federal agencies.—We are also increasing cooperation with Federal agencies who share our international trade mission, such as the Ex-Im Bank, which chairs the Interagency Task Force on International Trade. We are working with Ex-Im to make its services better known to small businesses. This will include developing a comprehensive training program for our domestic and foreign offices. The training and marketing videos that we develop are not only for our offices, but will also be available at US&FCS posts overseas for viewing by foreign firms interested in buying U.S. goods and services.

A major part of our mission is to promote and protect U.S. business interest abroad. Along with trade development's office of international major projects, we work closely with the Trade Development Program (TDP) to help U.S. engineering/construction firms win contracts overseas. In fact, many US&FCS offices abroad are directly involved in supporting TDP's efforts. We believe this helps TDP be an even more effective tool for expanding U.S. exports.

We are also working with the Department of Defense (DOD) to improve support for approved U.S. defense industry commercial export sales and related non-defense products. With its knowledge of the commercial sector, our overseas US&FCS staff is uniquely qualified to support overseas U.S. defense industry sales efforts. A recent example underscores this point. Mr. Samran Sinmoo, a foreign service national in Bangkok, Thailand, played a vital role in winning a $13 million contract for a U.S.-Thai joint venture to construct 12 hardened shelters for F-16 aircraft recently purchased by the Thai Air Force.

Right now, we are also working out details of a new cooperative effort with DOD to gather and disseminate foreign government defense procurement information to U.S. companies via our new and improved Trade Opportunity Program.

How it all fits together.—Our programs, services, and cooperative efforts with export multipliers have helped U.S. businesses across the country. Let me give you some examples:

Bill Rucker, president of Tracom, Inc., a 10 employee company in Fort Worth, Texas, contacted our Dallas office in July 1986 to find out if there as an export market for reconditioned truck transmissions. Our trade specialist counseled Mr. Rucker, giving him information on top importing countries, advice on how to quote prices, best methods of payment, dealing with different cultures, etc., and recommended that he use our export mailing list to contact potential importers. Within four months, Tracom had landed its first export sale for $11,000 to Detco, a distributor in Sydney, Australia. A month later, Tracom had a follow-up order for $80,000.

Tracom then ran into a problem. It needed to purchase the transmissions from a U.S. supplier, and needed financial assistance to fill the purchase order. The company's local bank was not willing to lend funds against a letter of credit. Out trade specialist contacted a major Dallas bank which was willing to handle the transaction. Less than 14 months after Mr. Rucker first approached our office his firm had sold $250,000 worth of truck parts. He expects to sell another $250,000 by the end of 1987.

RPI International, a Columbia, South Carolina-based firm with 60–65 employees, has been a client of the district office for about five years. The firm has developed an innovative, self-contained shrimp hatchery (Aquarica) that can be delivered and operational within five months of the date ordered—conventional hatcheries usually take nine months to 2½ years to become operational.

RPI has constantly utilized the programs and services of the US&FCS including the Agent/Distributor Service (ADS), Commercial News USA/new product information service, market research reports and statistics, as well as the one-on-one counseling services to discuss topics ranging from the financing programs of the Ex-Im Bank, to how to respond to an overseas inquiry. They have also participated in US&FCS seminar and workshop programs over the years.

As a result of an advertisement in Commercial News USA, the RPI team recently returned from Indonesia where the team completed site selection for an Aquarica hatchery ordered by a Commercial News reader. While they are still working out the details of the financing arrangements and related contract negotiations, RPI attributes its success to working with our district office.

Software Research N.W., Inc., a small computer software company in Vason, Washington, recently advertised a new software product in U.S. trade publications. The company, which has 15 employees received a number of inquiries from foreign companies but initially did not intend to respond to them. A US&FCS trade specialist in Seattle worked with the firm, reviewing licensing requirements, export documentation, shipping and packaging options and counseled the firm on a plan for following up on each inquiry, and supplemental promotional efforts for generating additional export inquiries. Software Research decided to pursue each inquiry. The result was a $10,500 order from West Germany, and two $10,500 orders to Australia and Switzerland.

These are just three instances where U.S. companies have taken advantage of our services. In all fairness, we can't take credit for their success—the real credit belongs to the creativity and entrepreneurial spirit of U.S. businesses. But, we do feel that we have been able to help translate that zeal into export profits. That's what we are here for—to serve as a catalyst for exporting . . . to serve U.S. business.

I appreciate having the opportunity to talk with you about the export assistance programs of the United States and foreign commercial service, and welcome your questions and comments.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230
DIRECTOR GENERAL OF THE U.S. AND
FOREIGN COMMERCIAL SERVICE

NOV - 4 1987

Honorable Ernest F. Hollings
United States Senate
Washington, D.C. 20510

Dear Senator Hollings:

In support of my recent testimony of October 27 I am enclosing responses to the questions you have submitted. I hope these responses are helpful in evaluating the effectiveness of our programs. As Director General of the U.S. and Foreign Commercial Service, I want to thank you for your support and the opportunity to testify before the Subcommittee on the role that our organization plays in trade promotion.

If we are going to continue to have the economic strength and growth that we have had in the last decades, we need to direct our efforts to developing a national export mentality. From the federal goverment perspective, tremendous progress has been made in reaching new horizons for export promotion. Your support and the support of other members in Congress is critical. I look forward to a joint effort by the Legislative and Executive branches working hand-in-hand to help this country sell more abroad.

Once again, I appreciate your interest and support.

Sincerely,

Alexander H. Good

Enclosure

Answers To Senator Rockefeller's Questions

Question 1:

What type of direct outreach programs attempt to get to the smaller businessman? For example, when you hold export seminars, how do you invite the small, new-to-export businessman? How do you identify him?

Answer:

District offices use their own mailing lists and newsletters to reach all those companies who have been in contact with their office. In addition, we work closely with the Small Business Administration, State Development Offices, local Chambers of Commerce, Associate Offices, Small Business Development Centers (SBDC), our District Export Councils, schools and other appropriate outreach multipliers.

Using several organizations, we have actively promoted state-sponsored export financing assistance for small business exporters. Those organizations include the National Governors Association, the National Conference of State Legislators, the National Conference of Lieutenant Governors, The National League of Cities, the World Conference of Mayors, and the National Association of State Development Agencies.

Through the International Trade Task Force, spearheaded by the Export-Import Bank of the United States, we and 13 other agencies are designing initiatives to reach the small business exporting community. The initiatives include publishing a source book of all government services available to exporters, producing promotional films and providing training videos for our and the Small Business Administration's offices. We also have signed with SBA a memorandum of understanding to strengthen each organization's small business outreach efforts.

In addition, we have also contacted the National Association of Manufacturers, Small Manufacturers Forum, and the Chamber of Commerce about developing specific programs to reach their small business membership. And we are now developing an agreement with the National League of Cities that will expand our outreach into the small business exporting community.

The US&FCS has also undertaken a national Export Awareness cmapaign with the Advertising Council, Inc., a nonprofit organization that conducts public service advertising campaigns designed to improve the quailty of life in the Untied States. The Export Awareness campaign targets the estimated 20,000 export-capable U.S. businesses that are not exporting and attempts to reach them through the business press. Print media ads have been placed since last January in approximately 125 different newspapers and periodicals. A direct mail outreach is currently under development that also will focus on small and medium-sized businesses.

In addition, the US&FCS is working with the Ad Council's public relations staff to strategically place articles in national and industry-focused media. INC magazine published an article on US&FCS trade promotion activities in its November 1987 issue. Entrepreneur has two articles scheduled back-to-back for their January and February 1988 issues. A series of articles is under development for the Los Angeles Times' new weekly International Trade Section. Further, the Ad Council is developing a series of different articles of a general export promotion theme for placement in additonal newspapers and magazines as well as Public Service Announcements (PSAs) for nationwide radio broadcast.

These outreach efforts are being accomplished at relatively little cost. Under the Ad Council contract, the US&FCS pays only production costs. All creativity and placement in the media is free, donated by member advertising agencies and the media. Other outreach activities are being coordinated by headquarters staff on a minimal budget but designed to have a maximum impact. Where possible, private groups are asked to underwrite events or publications, such as next year's planned World Trade Week activities or certain publications published by District Offices in cooperation with District Export Councils.

Further, although not limited to the small business community, the US&FCS has agreed with the "Journal of Commerce" to publish all business opportunity leads generated by the foreign posts. These timely leads give every interested small business the ability to identify an opportunity which they could supply.

The attached list of seminars which are scheduled for the coming year give an idea of the magnitude of this outreach effort.

Question 2:

How do you monitor the recruitment effort to assure that small businesses are signing up for overseas events that are particularly suited to them?

Answer:

Overseas events are planned and conducted to encourage participation by small and medium businesses. For example, our Matchmaker and Foreign Buyers Programs are specifically designed for small businesses and have been enormously successful. Matchmaker events are large delegations of U.S. business representatives to overseas markets. These 2- or 3-day events bring new-to-export or new-to-market firms into contact with agents, distributors, licensees, franchisees or joint venture partners through appointments arranged by the US&FCS. The Foreign Buyer Program brings qualified foreign buyers to leading U.S. shows of industries with high export potential and then assists participating U.S. firms to do business with those buyers.

In addition to recruitment lists provided by various divisions within the Department, the district office solicitation for video and catalog shows and other overseas events is closely coordinated with their respective state and SBA offices to assure professional counseling to any interested small business. The recruiting results and the project activity are monitored on a daily basis by the project manager in order to provide a detailed results list to the trade promotion coordinator. 1200 small firms were recruited for trade events in FY87.

Question 3:

How has the US&FCS responded to the concern of various organizations and to their recommendations? I refer specifically to the list of concerns from the National Association of State Development Agencies in 1985, the recommendations made by the National Governors Association to Secretary Baldrige in February 1986, and the report prepared by the U.S. Chamber of Commerce in January 1985.

Answer

The National Association of State Development Agencies (NASDA) had four concerns: better communication; better coordination; definition of State and Commerce roles; and better access to information and programs. To address those issues, we jointly initiated a seven-state pilot program to study federal-state cooperation. The first round of that two-year pilot program has just been completed and we plan to initiate a second round involving additional states. We have also made our other Federal-state partnership agreements more meaningful and productive, defining respective roles and responsibilities. And, the US&FCS Computerized Information Management System (CIMS), which is scheduled to be operational in early 1988, will provide more timely trade leads to the states.

The concerns expressed by the National Governors Association to Secretary Baldrige in 1986 involved four major areas: (1) maintaining and making available data on trade; (2) improving and maintaining US&FCS overseas posts; (3) promoting export financing programs; and (4) having Commerce act as a focal point for tourism promotion efforts. We have addressed each of those concerns.

1) CIMS will provide the response to the National Governors' Association call for making available to prospective exporters and state governments data on trade trends and foreign markets. CIMS will also greatly improve the utility and timeliness of trade date available to the states.

2) We are not able to expand US&FCS representation in all countries currently served by the US&FCS and reductions are now necessary in some locations (e.g., Thessaloniki, Greece; Cali, Colombia; and Salvador, Brazil).

3) State-sponsored export finance programs are being actively promoted. 18 states now have some form of export financing in place, but only seven of those state programs have received appropriations.

In the August 3 edition of "Business America", the Department of Commerce's magazine on international trade, we ran an in-depth explanation of the export financing assistance available through the Illinois Export Development Authority (IEDA). We believe the IEDA program offers a model which other states could adopt.

Using the August 3 "Business America", we implemented a nationwide effort to stimulate development of additional state-sponsored export financing programs. The article on IEDA, along with explanatory background material has been circulated to all governors by the National Governors Association, to all lieutenant governors by the National Conference of Lieutenant Governors, to key state legislators by the National Conference of State Legislators, to key mayors by the National League of Cities, and to state economic development officials by the National Association of State Development Agencies.

Since this coordinated and intensive effort began, Arkansas, Florida, Texas, and North Carolina have approached IEDA in search of assistance in developing their own export financing programs.

Cities, independently of their states, have also exhibited strong interest in establishing export financing programs. We are now developing with the National League of Cities a program that can help cities achieve that objective.

Finally, we have entered into a cooperative agreement with the Export-Import Bank of the United States to help the Bank reach more small exporters. Ex-Im has recently extended "delegated authority" to the states of California and Massachusetts and to the cities of Los Angeles, Tucson, and Columbus (Ohio).

4) We have increasingly acted as a focal point for tourism promotion efforts, working closely with Commerce's U.S. Travel and Tourism Administration.

Finally, we agree with, and have taken action to implement, most of the U.S. Chamber of Commerce's January 1985 recommendations. A copy of the US&FCS' 16-page response to the Chamber's report is attached. In addition to the answers in this response, we have recently taken action to establish a US&FCS Advisory Council.

Question 4:

What process does US&FCS use to get input from the business sector--your consumer--in an organized way? Please describe your plans for a formal advisory process. When will this process begin? How will you select the members from the private sector? Will state government officials be included?

Answer:

The business advisory function is carried out effectively through several structured channels. The President's Export Council (PEC) at the national level and the District Export Councils (DECs) at local levels regularly review and make comments on the work of the US&FCS. Close liaison is also carried out with State Development Offices and Chambers of Commerce to assure that the US&FCS is serving a broad spectrum of business interests in a meaningful way.

Feedback from the business sector is also obtained through the Department's Industry Advisory Committee on Small and Minority Business for International Trade Matters (ISAC-14). ISAC-14 which is comprised of business people from around the country, meets quarterly. US&FCS makes regular presentations and receives feedback from the ISAC-14 members.

Recently, the US&FCS decided to strengthen input from our clients, the private sector, by concentrating the formal advisory process through a newly established "U.S. and Foreign Commercial Service Advisory Council." Approval for this new organization has been obtained from the GSA, and publication in the Federal Register is pending. As recommended by the Chamber of Commerce, and subsequently endorsed by the PEC and individual Chambers overseas, the Advisory Council may include members from small and large businesses, State Development Agencies, the U.S. Chamber of Commerce, industry associations, and overseas Chambers. The US&FCS Advisory Council will provide more in depth private sector input on both operations and programs. It will also serve as an outreach mechanism to multiplier organizations, alerting them to export promotion and facilitation opportunities offered by the Department of Commerce.

Members will be selected with the help of US&FCS District Offices, the DECs, our overseas posts, and trade related organizations.

Question 5:

I am particularly concerned about the issue of federal programs tailored to national priorities where district offices have little latitude to adjust these programs to local needs. How does the US&FCS deal with this problem? What kind of flexibility is there?

Answer:

Each of the 48 districts develops its own annual plan based on guidelines from US&FCS headquarters. This system is designed to give each district the maximum flexability in dealing with the differences found in each of the states and local communities. Each of the district plans is tailored to agreements made with their respective states. For example, in Oklahoma the US&FCS office shares office space with the state. We also have colocation arrangements in Texas and Florida and are planning colocations in Alaska, New Mexico, Washington and Oregon. Those colocation arrangements allow joint US&FCS planning and implementation which assures that local needs are addressed and blended into our efforts.

Also, as a part of the annual plan under the national Memorandum of Understanding (MOU) between the Department of Commerce and the Small Business Administration, each US&FCS and local SBA District Office have developed local cross training, client referral and joint seminar schedules to meet the local small business community needs. An example of this effective local coordination would be the assignment of one Trade Specialist in Brooklyn N.Y. to the Long Island University/SBA Small Business Development Center (SBDC) for one day a week.

Other Trade Specialists utilize the benefits of being located in Chambers of Commerce and associate offices where this will bring US&FCS services closer to the local small business community.

Each of our district offices also has a District Export Council (DEC). DEC activities vary greatly because each DEC represents the local business community. In Milwaukee and most other areas this translates into "hands on" one-on-one counseling by DEC members. And in each instance, that "hands on" counseling assures that the needs of the local business person are being addressed by a business executive who is involved in exporting.

The present integrated and coordinated system of federal-state agreements, our Memorandum of Understanding (MOU) with the SBA, our colocation arrangements, and our DEC involvement allow the maximum responsiveness and lattitude to meet local needs and priorities.

Question 6:

I have seen several different breakdowns of how officers abroad divide their time among counseling activities, trade promotion events, and so on. Please give me an accurate and current breakdown. I have heard of complaints that FCS officers abroad spend too much time on trade policy issues. Please comment on this as well.

Answer:

Our officers' activities include counseling and assisting U.S. and host-country companies seeking support to increase U.S. exports of goods and services; planning and managing trade promotion events; gathering and collecting information to be used in promoting trade policies and in supporting efforts to increase U.S. exports; managing and administering commercial programs, resources and personnel; and supporting other USG agencies, including the Trade Administration, Trade Development Program, United States Travel and Tourism Administration, National Bureau of Standards, Foreign Agricultural Service, Export-Import Bank, Overseas Private Investment Corporation, Bureau of Reclamation, National Oceanic and Atmospheric Administration, and United States Trade Representative.

In FY 87, our officers (and Foreign Service Nationals) spent some 55 percent of their time providing counseling services and organizing or supporting trade events, 15 percent preparing commercial-information reports, 15.5 percent administering their program and managing their staff, and 14.5 percent assisting ITA and other agencies. In this distribution, just under 5 percent of a commercial section's time went to trade-administration support, while trade-policy issues took just over 2 percent (1 percent for Africa, the Near East and South Asia, 3.4 percent for East Asia and the Pacific, 2.2 percent for Europe, 1.7 percent for the Western Hemisphere).

On this evidence, we feel that our officers' involvement in trade-policy matters is not excessive. This is particularly true when considering the contribution these officers can make to the process because of their overseas trade experience as well as the importance of some policy issues to U.S. commercial interests.

Question 7:

To what extent have you attempted to reduce the administrative burden involved in preparation of the PCAP--the Post Commercial Action Program? I am concerned that too much of officers' valuable time is spent dealing with administrative matters.

Answer:

Prior to FY 88, commercial officers at each post were required to submit, by September 30, a Country Marketing Plan (CMP), a Post Commercial Action Plan (PCAP) and a collection of Industry Sector Analyses (ISAs), which are basic market research documents covering industries that are the "best prospects" for increased U.S. exports. Recognizing the concern you have raised, we have substantively changed the process for FY 88 in an effort to reduce time spent on administrative matters.

The Post Commercial Action Plan (PCAP) is almost exclusively a numerical document, prepared by each US&FCS post. Until FY 87, it consisted of a) a start-of-year projection of commercial-section activities, divided into such categories as Counseling Services and Outreach, Trade Event Support, and Management, Supervision, Administration, and, b) four statistical reports, due at the end of each quarter.

Acknowledging that it is difficult for our officers to make accurate forecasts of their section's output in areas that are essentially reactive (e.g., responding to requests for trade-mission support or agent/distributor service searches), we have eliminated the start-of-year report for FY 88, but retained the quarterly reports.

The PCAP represents a control instrument both for officers and headquarters, and is our sole source of detailed and standardized quantitative data on each post's activities and performance. Thus we regard the PCAP as a suitable management tool, crucial to our collection of information and to the posts' internal administration. We do not believe this report constitutes a serious burden on our officers.

We have introduced a new CMP format which requires each post simply to outline specific activities undertaken in addition to the core program required at each post. Better direction has been given for the preparation of the country overview and the analysis of trade barriers. The net results are a reduction of approximately 35 percent in the time spent preparing the CMP, and a document that can be transmitted electronically to those who need the information.

We have also separated the Industry Sector Analyses from the CMP process, to spread out the preparation time over the year rather than concentrate it in a two-month period. The result is a more efficient use of resources and a reduction of administrative burden during the fourth quarter.

Based on the changes made for FY 88 we feel that time devoted to administrative requirements will be reduced from the 5 percent of total work weeks reported in FY 87.

Question 8:

Please provide the most up-to-date figures you have for the number of firms involved in manufacturing in the U.S., how many of them are exporters, and how many of them are potential exporters. How do you arrive at these figures?

Answer:

In a special survey conducted by the Census Bureau for the International Trade Administration, Census estimated that there were 350,000 manufacturing enterprises or plants in operation during 1984. These enterprises were organized into about 300,000 companies. (Companies such as IBM or General Electric might have many exterprises located around the country; however, the great majority of companies each consisted of a single enterprise.) Of these 350,000 plants, an estimated 58,760 were involved in some form of export activity, roughly one out of every six enterprises. The survey results did not include any information on the number of enterprises that were potential exporters.

Question 9:

I understand that US&FCS has prepared a questionnaire for American businesses that will try to ascertain their views of your services and activities. What is the current status of that questionnaire? To whom will it be sent? Will it be sent out on a regular basis for continuing evaluation of US&FCS activities? Please provide such a schedule if one exists? Please provide a copy of the questionnaire.

Answer:

The questionnaire mentioned was submitted to ITA's Office of Organization and Management Support on September 15, 1987, for the required OMB review. We expect OMB approval soon.

The purpose of the Trade Specialist Performance Survey is to review the effectiveness of the counseling provided by the trade specialists in the field. The surveys will be sent out over a four-quarter period to some 960 District Office clients. The survey was not conceived for use on an ongoing basis, but after the results are fully analyzed, this or another questionnaire will be used where they would provide valuable information.

QUESTION 10:

Up to now, there has been no post inspection process in the Foreign Commercial Service. I understand that you are planning to carry out management program reviews at two overseas posts in November. Is this correct? If so, will they be a State Department type comprehensive inspection? Will they be simply financial audits? How will this review be made? What guidelines will those who inspect the post's operations use? What process will be used to follow up on recommendations? Is there a regular schedule for these reviews? If, so please provide it? If not, please explain why not?

ANSWER:

Post inspections are ongoing. Two Management and Program Reviews (MPR) were conducted September 21-25, 1987, in Switzerland covering Bern and Zurich operations, and in Vienna, Austria September 28 - October 2, 1987. The reviews focus primarily on the management of US&FCS programs, events and other services and are not simply financial audits. They cover the total context of program management including relations with other embassy functions, the business community, and host government officials; resource, budget and administrative operations and records; personnel, facility, and security concerns; program, event, representation, and service adequacy and outreach; and operational effectiveness with desk officers, export administration officials, and other liaison functions.

A review is conducted by a team of 3-4 professionals. It includes pre-visit interviews and record reviews, and takes about one week at each post or district office. Each review follows procedures outlined in a comprehensive operations manual, review guidelines for posts/district offices, and MPR planning documents. The program draws many elements from inspection programs of such agencies as State and GAO, with considerable input from our own Office of Inspector General. Up to four district offices and six overseas posts may be reviewed in the coming year. A schedule will not be estabished until the availability of resources is known.

US&FCS activities both domestically and overseas are also reviewed extensively by the Department's Inspector General (OIG). The reviews and audits performed by our OIG in 1987 included five countries, three district offices and the Washington management of the Caribbean Basin Inititative. Each IG audit can involve teams of 3-5 and may last for one or two weeks in each location. The OIG management and program audits also review program activities as well as relationships within the embassies and the financial aspects of our operations. A list for 1985-87 is attached. OIG's 1988 tentative plans include an overseas review of the Caribbean Basin Initiative (CBI). The OIG does not currently plan to review all US&FCS offices from a management perspective on a cyclical basis.

In addition, State Department reviews are scheduled on 3-5 year cycles and while they are basically designed to study its operations, they provide a look at our relationship with State at overseas posts and the handling of our administrative support by DOS personnel. A State inspection list for 1986-87 is attached.

The GAO also reviews our operations and tends to focus on broadly defined issues rather than to comprehensively study the full range of our operations at specific offices. Recent GAO reviews have dealt in exhaustive detail with FCS personnel practices, trade promotion activities, property management, and district office assistance to small business. The current GAO audit of trade promotion activities will span over one year and involve visits to a minimum of nine countries or perhaps more. In addition, this review will focus on US&FCS headquarters operations and other units of ITA involved in trade promotion.

In short, in addition to our own management reviews, many aspects of the US&FCS activities have been and continue to be audited by a variety of agencies. Recommendations from all reports are thoroughly reviewed by senior managers and decisions made on implementation. Further, a tracking system is maintained to ensure that issues raised in all reports, including our MPR program, are appropriately dealt with in a timely manner. Overall, the level of activity devoted to reviewing US&FCS activities overseas by these agencies is increasing. There is a substantial commitment of resources devoted to briefing, accompanying, reviewing and responding to program and management audits. However, it should be noted that, while reviews are beneficial, an overabundance of audits can detract from the accomplishment of our trade promotion mission.

DOC/OIG AUDITS/INSPECTIONS 1985-87

OVERSEAS

1. Singapore
2. Thailand
3. Indonesia
4. Malaysia
5. Mexico
6. Canada
7. Brazil
8. Chile
9. Argentina
10. REDO Bonn

DOMESTIC

1. Phoenix
2. Los Angeles
3. New York
4. Greensboro
5. Seattle
6. San Francisco
7. Nashville
8. Houston
9. San Diego
10. Oklahoma City
11. Salt Lake City
12. Hartford
13. San Juan
14. New York (follow-up)
15. San Diego (follow-up)
16. Phoenix

US&FCS

Overseas

1. Portugal (1985)
2. Switzerland (1987)
3. Austria (1987)

Domestic

1. Boston (including Augusta and Providence) (1985)

DEPARTMENT OF STATE INSPECTIONS 1986-87

1986	1987
1. China	1. Hungary
2. Mexico	2. Yugoslavia
3. Hong Kong	3. Poland
4. U.K.	4. Romania
5. Egypt	5. Jamaica
6. Israel	6. Dominican Republic
7. Algeria	7. Argentina*
8. Morocco	8. Chile*
9. Thailand*	9. Peru
10. Korea	10. Ecuador
11. Panama	11. Colombia
12. Honduras	12. Venezuela
13. Guatemala	13. Brazil*
14. Costa Rica	14. Switzerland
	15. Berlin
	16. Canada*

*Inspections also performed by Commerce IG.

GAO INSPECTIONS 1987

1

1. West Germany
2. United Kingdom
3. Italy
4. India
5. Korea
6. Japan
7. Brazil
8. Mexico
9. Venezuela

In addition, one or more of the following may be involved:

1. Belgium
2. France
3. Spain
4. Singapore
5. Hong Kong

Question 11:

Several Years ago, US&FCS appointed special officers with two-year appointments to help improve state export promotion efforts. What happened with this program? Was it successful? Has there been any follow-up?

Answer:

The program referred to involved appointment in our regions of Business/Government Relations Officers (BGR's), who were responsible for developing and refining state-based international trade programs. We concluded that program to structure our efforts with nationwide consistency rather than having regional variations. In our view, a continued BGR program would not have been as successful as what we now have in place. That is, we now have a Washington, D.C. based employee responsible for stimulating on a nationwide basis and coordinating with our own federal program, state and local sponsored export promotion programs. Our view is that developing and coordinating nationwide export promotion programs has created more consistency and standardization and made it easier for our district offices to work in unison with state and local governments.

Our follow-up has involved the implementation of two very significant and productive programs. Each one of our district offices has signed with its state counterpart agency an annual federal-state partnership agreement. Those agreements spell out in detail the cooperative efforts to be undertaken by each party.

Additionally, we have undertaken a seven-state pilot program designed to enhance the cooperative, export-stimulation efforts of our offices and their respective state governments. The pilot program has been carried out with strong support and involvement from the National Association of State Development Agencies (NASDA). So successful has this pilot program been that we and NASDA are planning for a second and expanded program.

Our follow-up has also involved, for example, a standardized nationwide effort promoting state-sponsored export financing programs. That effort is being coordinated through the National Governors Association, the National Conference of Lieutenant Governors, the National Conference of State Legislators, the National Association of State Development Agencies, and the National League of Cities.

In sum, we have been and continue to aggressively pursue a cooperative and complementary relationship with our state counterparts to ensure that maximum export promotion opportunities are made available to the businesss community.

Question 12:

Has US&FCS reviewed the impact of "full cost recovery" on small business participation in overseas events? Has "full cost recovery" affected small business purchases of US&FCS market research?

Answer:

We are sensitive to the potential impact of our user fee policy on our intended audience and factor this into our pricing schedule. We therefore, do not base fees for either service on "full cost recovery", but rather, aggregate "direct cost recovery".

Our pricing policy: 1) allows the market to evaluate the worth of our services and products; and 2) balances demand for services with supply constraints by eliminating frivolous use.

Participation fees for trade events are set on the basis of recovering the estimated costs of staging each event. We do not attempt to recover overhead costs such as federal employee salaries and benefits, office space, rents or utilities charges.

We do not feel that at current levels our fees impact on the demand for trade events from serious small business users. During FY 1987, approximately 50% of the 3,700 companies participating in our trade fair, mission, and catalog exhibitions were small (fewer than 250 employees).

Firms are willing to pay more for added value. So, over the past year, we have consciously tried to make our services more attractive to smaller companies by building in more value and keeping costs low.

Existing programs like our video/catalog shows have been improved, and we have developed new, less expensive overseas promotion vehicles like our "Matchmaker Trade Delegations".

- Last year participants in our catalog shows paid an average fee of $250.00 to exhibit their catalogs in up to 8 countries, and received an average of 50 trade leads each.

- Our current Matchmaker Trade Delegation to London and Paris, for example, will give over 80 predominately small companies a chance to meet with over 1,400 hand-picked potential agents and distributors -- for a fee of just $1,500.

Our participation fee represents only about half of the total cost a firm incurs in promoting its products in a trade fair or mission. Overseas travel, freight and "lost" employee time all add to the equation. For this reason, we have expanded the Foreign Buyer Program, which provides small new-to-export

companies with the opportunity to meet with qualified foreign business visitors here in the U.S. By FY 1989 we hope to sponsor 25 of these shows.

In the market research area, we are currently revamping our pricing policy in light of our new Commercial Information Management System (CIMS) which will soon deliver this information to the business community. CIMS allows us to stop relying on "hard copy" standardized reports (which involved large sunk costs in terms of printed inventory). Instead, our trade specialists, and state and other multipliers will be able to access CIMS databanks and custom-tailor market research to the specific needs of companies.

The CIMS pricing structure has not yet been finalized, but will balance the need to get this information to companies who have the interest and resources to pursue exporting with the need to recover direct costs.

Like our trade events, we have built more "added value" into our overseas market research. In addition, we have added new information programs such as our Comparison Shopping Service, which for a fee of just $500, provides a company with specific answers to the questions firms need to ask in order to decide if there is an export market for their specific product in a specific country. Feedback from small users indicates that this research is worth thousands of dollars to them.

Question 13:

I have seen different sets of figures for staff in the US&FCS. How many authorized positions are there in the district offices? In headquarters? Overseas--both American and Foreign Service Nationals? On October 1, 1987, how many of these positions were filled? How many were filled on October 1, 1986?

Answer:

The US&FCS staffing figures are either stated in terms of AUTHORIZED positions, FULL TIME EQUIVALENCY (FTE), or number of persons on board at any given time. While the number of AUTHORIZED positions change infrequently, the number of FTE and positions on board may change monthly. The following table is expressed in terms of AUTHORIZED positions and number of persons on board.

Operating Unit	Authorized Positions	On Board 1/ Oct. 1986	On Board 1/ Oct. 1987
Field Oper. Mgmt.	89	82 2/	76 2/
Export Promotion Ser	141*	128*	122*
Domestic Operations	355	333	309
Foreign Operations			
American Overseas	201	183	161
Foreign Nationals	500	477	441
TOTALS	1,286	1,203	1,109

* Includes trust fund positions.
1/ Does not include CO-OP/PMI's.
2/ Includes FCS officers in training, on assignment to other ITA units and on LWOP.

Question 14:

Among current district office directors, what is the average time and the range of time they have been assigned to that district?

Answer:

The average district director has been in his/her district office for a period of 11.72 years. The maximum time is 32 years and the minimum is approximately six months.

Question 15:

Please provide information about exchange between district offices and posts abroad. On October 1, 1987, how many FCS officers were serving in district offices? How many people serving in the overseas offices have had district office experience? Is there a formal program for cross-fertilization between the district and overseas offices? If so, describe the program? If not, why not?

Answer:

On October 1, 1987, three FCS officers were serving in district offices. Fifteen officers serving in overseas offices have had district office experience (this includes career FCS officers, limited appointees from the domestic service, and former domestic employees who were converted to the Foreign Service as career candidates).

There is a program for cross-assignments between the district and overseas offices. The open-assignments bid list which lists all overseas vacancies, is sent to all district and overseas offices. Qualified district office personnel are encouraged and do bid on overseas assignments for developmental purposes. If they are selected for an assignment, they are given a two-year limited appointment. During that period of time, many officers decide to make a career change and apply for career-candidacy through the assessment center process. To date, eleven district office personnel have applied for career-candidacy.

This same developmental opportunity is available to trade specialist personnel in other units within the International Trade Administration.

As part of the assignments bid process, FCS officers identify their interest in a District Office and other domestic rotational assignments. Having had ten FCS officers serve in District Offices is signficant, since officers are not eligible for domestic assignments until they are tenured. The number of officers assigned to District Offices should increase as more officers become eligible.

The US&FCS has other means of cross-assignments of personnel. They are: 1) temporary assignments for district office personnel due to emergency staffing situations at overseas posts; 2) ongoing consultations at district offices for FCS officers enroute to or returning from an assignment or on home leave; and, 3) joint training in the three-week Mid-Level Officers Course.

Question 16:

Please provide a list of names with title, rank, and country of assignment of all non-career limited appointments in the Foreign Commercial Service on October 1, 1987.

Answer:

The following are the names with title, rank, and country of assignments of all non-career limited appointments in the Foreign Commercial Service on October 1, 1987. Three of these people are from other federal career services and are so listed:

Name & Title	Rank	Country
Robert C. Bodden Commercial Counselor	FP-1	Thailand
Daniel D. Devito Commercial Attache (USAID)	FP-3	Honduras
David K. Diebold Commercial Counselor	FE-MC	United Kingdom
Joseph W. Harrison Commercial Attache	FP-2	Indonesia
Paul Huygelen Commercial Counselor	FP-1	United Arab Emirates
Richard Johnston Commercial Counselor	FP-1	China
Beaumont Lower Commercial Counselor	FP-1	Singapore
H. Michael Mears Commercial Counselor	FP-1	U.S.S.R
Milton M. Rose Commercial Counselor (Commerce/NOAA)	FP-2	Romania
Barbara Slawecki Commercial Counselor	FP-4	China
Nora Sun Commercial Officer	FP-3	China
Vincente Tang Commercial Officer	FP-4	China

Name & Title	Rank	Country
Paul M. Thiel Commercial Attache	FP-1	China
Daniel L. Thompson Commercial Officer (Commerce/ITA)	FP-4	Nigeria
Charles W. Wessner Commercial Attache (OECD)	FP-1	France
David S. Yonker Commercial Counselor	FP-1	Argentina

In addition, there is one State Department employee on detail to the US&FCS in Osaka-Kobe, Japan: Vladmir Sambaiew, FO-2.

Question 17:

How does overseas staffing relate to the size of a potential market? For example, as export opportunities have grown dramatically in Korea and Taiwan, have you shifted personnel there from elsewhere?

Answer:

The size of actual and potential markets for U.S. exports is one of the factors considered when determining staffing in a country. Other important factors for consideration include (1) difficulty of doing business in the country, (2) amount of trade policy work (e.g., Japan), (3) support by US&FCS to other USG agencies (e.g., export control work in Hong Kong), and (4) the effect changes in policy would have on potential growth of the market. The actual placement of staff (American and local) depends on available funding. The US&FCS is not presently in a financial position to expand personnel and, in fact, has experienced a significant reduction in overseas personnel during the past two years.

Regarding Korea, we did assign a sixth officer as a junior officer in January 1987. We would like to add one professional local employee in Pusan, the second largest commercial center and two more professional commercial employees in Seoul, when resources allow us to do so.

Regarding Taiwan, the two U.S. commercial officers and local professional employees are funded by the American Institute of Taiwan (AIT). We have proposed to recruit a third U.S. commercial officer for Taiwan. We have also proposed that AIT should expand the current commercial staff. We believe this would give the commercial section the visibility and organizational structure warranted by the market opportunities and policy issues.

Question 18:

What do the Regional Managing Directors of the field offices do that was not done well before these positions were created? Is the system working better now? Is any thought being given to reducing the number of Regional Managing Directors?

Answer:

The Regional Managing Directors (RMDs) provide the local leadership not possible from Washington. This arrangement has improved communications to and from the district offices and has led to a more organized, efficient and effective organization. For example, the Regional Director in Region I (New England and New York) is available to support and counsel the district directors in that region on a regular basis. At the same time, the nine RMDs simplify and streamline communications between headquarters and the 48 district offices. At this time, we do not anticipate reducing the number of RMDs.

Question 19:

There has been criticism of the District Export Councils that membership is often based on political affiliation. Please explain the process by which members are selected. What are the qualifications for selection? US&FCS written briefing material refers to "appointment confirmation". What does this mean?

Answer:

All members of the District Export Councils (DECs) are nominated by the District Office Directors who are non political career service employees. In seeking members, the District Director is looking for expertise in at least one phase of international trade, enthusiasm, and position in the local business community. Many members represent state and municipal government, the SBA or other outreach organizations. The "appointment confirmation" refers to the security assurance of both the company represented and the individual member, before official designation as a DEC member by the Secretary of Commerce.

Security assurance, rather than clearance, precludes access to classified information until completed and includes a name and identity check by the FBI and OPM as well as completion of a National Agency Check and Inquiry (NACI). The NACI discloses prior federal government employment or a previous NACI.

Question 20:

Why have some posts discontinued providing ADS services with the claim of budget problems if this program is supposed to be self-supporting at a cost of $90 per inquiry?

Answer:

According to US&FCS instructions in July 1987, all posts are required to provide the agent/distributor service (ADS) along with other basic programs, through the district offices, to American businessmen. Previously, several posts had requested Washington to discontinue ADS and other services on a selective basis to allow allocations of limited program support funds at post to other priorities. The $90 fee usually does not entirely cover the cost of officer and local staff time, transportation, phone bills, and interviewing prospective agents. Moreover, fees collected by the district offices are not credited directly to post budgets. Although funding for overseas operations is a major problem today, we remain committed to maintaining essential programs such as ADS for all business users worldwide, except in non-market economies where these services are not applicable.

Answers to Senator Bentsen's Questions

Question 1:

Sufficient staff.--This Congress is going to enact a trade bill with a much more active program of enforcing section 301, to break down foreign barriers. The Foreign Commercial Service is the front line in detecting those barriers and bringing them to USTR's attention. Does the service have adequate staff to do the job?

Answer:

Identifying foreign trade barriers to the sale of U.S. products and services is one of the many tasks that, to date, we have had sufficient staff to accomplish. With budget-mandated cutbacks in our staffing levels, however, our capability for taking a lead role in working toward removal of barriers will be diminished in some countries at least. Identification of barriers is a relatively easy job compared with devising and carrying out strategies that will bring about change in foreign government laws, regulations or policies. Under the Ambassador's overall direction, our senior commercial officers are often asked to and can effectively address policy issues of greatest significance to U.S. commercial interests in a given country. And, we can play even a greater role when resources permit.

Question 2.

Trade barriers in Europe.--I find that the many countries in Europe refuse to allow U.S. producers of steam generating equipment to sell these products there, even though they are competitive everywhere else in the world. Have your Foreign Commercial Officers in Europe looked into this problem?

Answer

In October 1986, the Strike Force Working Group considered industry allegations of unfair trade practices affecting U.S. exports of steam generating equipment to Europe and Japan. The Working Group recommended conducting an investigation into procurement policies in these countries and initiating bilateral consultations with the appropriate governments.

Completed in the summer of 1987, this investigation was conducted by Foreign Commercial Officers in Europe and Japan using a comprehensive questionnaire developed in Washington. The Administration has reviewed the information obtained by our officers, which supports industry allegations regarding closed markets. We are in the final stages of developing a strategy with the objective of opening these markets to U.S. steam power generating equipment.

Senator ROCKEFELLER. Now I would like to ask a panel to come up to the witness table: Mr. Charles Valentine; Mr. Lawrence A. Fox, who is with the National Association for Manufacturers; and Mr. Rick Houvouras, who is Vice President of Huntington Plating and a Member of the West Virginia House of Delegates.

I am very glad to have them here.

If it is all right, I would like to have each of you gentlemen, starting with you, Mr. Valentine, make your statements or whatever comments you may wish. Then I would like to question you as a panel and get some discussion going.

STATEMENTS OF CHARLES VALENTINE, FALLS CHURCH, VA; LAWRENCE A. FOX, VICE PRESIDENT, INTERNATIONAL ECONOMIC AFFAIRS, NATIONAL ASSOCIATION OF MANUFACTURERS; AND RICK HOUVOURAS, VICE PRESIDENT, HUNTINGTON PLATING, INC., AND MEMBER, WEST VIRGINIA HOUSE OF DELEGATES

Mr. VALENTINE. Thank you very much, Mr. Chairman.

I am here today as a private citizen. I am not representing any group, but I am an American businessman who has just returned from 14 years of being overseas, helping various businesses in doing business in different countries.

So my views do not necessarily reflect any organization, not even that of my own firm.

There are some general comments that I would like to make.

First of all, many businessmen abroad felt that the employment of personnel with business experience in the US&FCS would improve the quality of service, and that their placement in the Commerce Department would strengthen the U.S. ability for export promotion.

There are six comments that I would like to make to provide you with feedback not only from myself, but from American businessmen who are working abroad.

First of all, the US&FCS is severely understaffed, with less than 200 posts worldwide. This type of operation requires significant commitment, or it is not worth running at all.

One of the questions that has arisen from me as well as from other businessmen, is that we have always asked why is it that there is not a concentration of these resources where U.S. businesses are going? We think that study is needed on this.

Most American businesses, when they go abroad, do not go into 127 countries all at once. They set up regional offices and cover five or six countries, and work out of that regional office. That might be the most useful deployment of the US&FCS personnel, if they were concentrated.

Second of all, we believe that there is a need for career personnel at the deputy assistant secretary level to insure continuity and historical perspective. We understand that one person has been appointed at that level, but we feel that there need to be more people in that position.

Senator ROCKEFELLER. Would that be because of your wanting to see people with more continuity and longer professional service?

Mr. VALENTINE. Yes, more continuity, so that it reduces political turnover.

In other words, one of the things that we have seen from overseas is that there is a turnover within the organization, with changes in administration or for other reasons. So we are looking at more career personnel at that deputy administrative level.

Thirdly, the State and Federal programs should be approached on a coordinated basis. It seems that they should be working together out of the same building and working hand-in-hand.

Right now, it does seem that they are not really working that way overseas. They are located in different areas. They have different agendas. And it seems that they could really be more effective if they were combined.

Fourth, the possibilities for building an interchange among the domestic field personnel and the Commerce country desk officers and the FCS officers should be explored. There should be more communication from here with the domestic offices to the foreign offices. What are the leads that they are generating? How are they feeding back? How are they working together?

The fifth point out of the six is that there is a need for a formal market strategy and plan that parallels American business activity. If one does not exist, we think one should.

As American businessmen, we do not know what it is the Department of Commerce has in this area. But we believe that, as American businesses are going overseas, why isn't there a study to see where it is that they are going, how they are setting up regionally, and why doesn't the Foreign Commercial Service then mirror that and try to place its people in those locations?

The sixth one is that the outreach programs need to be expanded, and there should be more stress on why to export in the seminars, rather than how to export.

Senator ROCKEFELLER. Which program ought to be expanded?

Mr. VALENTINE. The outreach program of the US&FCS.

One of the things that I found from talking with the people domestically that are in the US&FCS is that they have given lots of seminars on how to export and the attendance has significantly dropped over the years.

We just got some information, I think it was from Illinois, that said they used to get 400 people attending these seminars, and now they are down to five or ten people. One of the reasons is that a lot of small and medium sized businesses—and this was mentioned earlier with Mr. Good—don't know why they should export, why they should go overseas as opposed to going into Pennsylvania if they have not reached their capacity.

Again, that is where we see the stress is needed.

Finally, in summary, it would appear that the U.S. is simply not adequately geared up to promote exports. This is a fundamental problem. Our tax system, as compared to those in other countries, the structure of our overseas networks, like you have heard before, the Japanese, with 5,000 people overseas, just offers little advantage for exportation, as opposed to domestic sales.

That is the end of my comments.

Senator ROCKEFELLER. Mr. Valentine, thank you very much.

Mr. Fox.

Mr. Fox. Thank you, Mr. Chairman.

I am Lawrence A. Fox. I am Vice President of the National Association of Manufacturers for International Economic Affairs.

For many years, I served in the government in the Department of Commerce as Director of the Bureau of International Commerce, which was the predecessor agency to the International Trade Administration. In that position, I was in charge of trade policy, as well as trade promotion.

So my comments reflect my experience of some 10 or 11 years at the National Association of Manufacturers, as well as some practical experience in the Commerce Department in the field that you are holding hearings on today.

I want to say, first, that I think these hearings are very timely, and I was pleased to hear that you will be following up on them.

In a way, many of the problems which are being discussed now are the same problems that were discussed 10, 15, and 20 years ago. They have not been resolved very satisfactorily.

Perhaps one of the major reasons the Foreign Commercial Service has not attained the prestige and impact that it might have had was the date of its creation, in 1980, just as the dollar was moving into its super dollar phase. That was hardly a time for a new organization to explain to small business that it is a good idea to risk your business in one shot, where your prices are extremely high because of the overvalued dollar, but go ahead and do it anyway.

I frankly give the Commerce Department and the Foreign Commercial Service credit for not overreaching in that respect. We have not had complaints that the Commerce Department has urged companies, inappropriate to their circumstances, to go into foreign trade.

But now that we are in a period when the dollar is more reasonably priced with all the major currencies and represents the possibility of price competitiveness not artificially handicapped, I think the role of the Foreign Commercial Service comes into a new phase. I think it is appropriate that we examine that role in relation to its budget capabilities and efforts.

My impression is the fastest growing portion of the Commerce Department and the trade field is trade control, the export administration area and enforcement of export control, rather than trade promotion.

I think the sense of priorities has to be examined further.

As a general comment, I would like to say that the United States Government has really not followed through on its stated policy to try to turn the trade problem around through exporting more. There is no national commitment to competitiveness. Although the Trade Act was sent forward to Congress with a competitiveness theme, it is not the theme that is carried through with respect to trade promotion.

There is no national export expansion effort in the United States, and I do not think there has been a single speech by the President on the subject of trade, other than the National Trade Week address in May, which is routine. There is no sense that the United States is trying to turn the trade problem around through export expansion. Therefore, it gives play to the observation that the strategy, if there is one—a dubious proposition—is to do so by way of protecting the United States from unfair imports, or imports whether fair or not.

I think a commitment to an international competitiveness program calls for a very careful review as to what are the capabilities of the Foreign Commercial Service. I think we have heard this morning some good ideas as to how to amplify that work in conjunction with the States.

I would make this personal observation. I do not worry very much about duplication or doing the same thing. I think competition is part of duplication. I think the States have come in to the trade promotion field in the past ten years in part because of the absence of the Federal Government's presence in that field in an effective way.

I very much believe that the opportunity now for a solid trade promotion program is with us, and I think we can take advantage of that.

In preparation for these hearings, we held meetings in my office with a number of U.S. firms to get their observations on the role of the Foreign Commercial Service, and, not surprisingly, there were two functions. One is the information function, with respect to markets, market conditions, how contracts are awarded, et cetera. Second, there was a specific desire for more information on how the contracts are made available.

In many foreign governments today, particularly with respect to major projects—and that is not just ports and railroads—major projects are not just in the public sector, where the governments are concerned. They are concerned with high tech, industrial policy, to pull their firms into high tech. So the governments play a role in the area that we are awfully good at, namely, high tech. But I don't think we have an adequate grasp in many instances of how to get those contracts.

It is the observation of our members that a better job of the identification of the decision making process is important to our firms.

It is not just in Thailand and countries where the language is peculiar. It is also in Germany, where the Bundespost is the federal agency, which is their communications agency and their INTELSAT and all of that thrown together. The common observation is well, the German Government is not interested in foreign bids.

Well, why has that only in the last year been the subject of concern by the United States Government and USTR to negotiate with Germany to open up their markets further?

So, those two functions, the information function and how to go at contracts, are the major areas identified by some of our members for further work by governments.

In connection with the government contracts, I would call your attention to the work in the developing countries, where very much of the financing is through mixed credits. In other words, a portion of it is aid money and a portion of it is commercial money through private banks and a third sector would be perhaps participation by the Export-Import Bank.

I think we have never done an adequate job of harnessing our aid program and the economic assistance that is associated with that with our export efforts. Other countries, particularly Japan, Germany, and France, have a much better record in that regard.

I would cite a problem now with respect to implementation with respect to major contracts.

In most foreign countries, there is only one really big company that can do the job. In Germany, it is Siemens. I the United States, it is AT&T and four, five, six, or seven companies. It is very difficult for a U.S. Commercial Officer to decide well, it is my opinion that AT&T is the one that can do the job and I don't want to waste any time on the others. As a matter of fact, if he does decide that and lets anyone know it, he is liable to find himself at a Congressional hearing as to why he discriminated against an American firm.

The foreign practice, usually through sort of an industry-government consensus or government decision, is to back a "national champion," and back him for the business, not only at home but also for exports, against foreign competition—and we have seen that in France time and time again, but also in other countries.

I am not suggesting that we waive antitrust laws or some other basic policies with respect to competition. But I think this subject calls for greater attention and I think it is a subject that is well worth consideration on your part, perhaps, so the companies can express their views.

Maybe they will conclude that they would rather take their chances than have the United States Department of Commerce decide which one is a national champion for a major project abroad.

In expressing this issue, I have to make reference to the lack of organization of the Federal Government in Washington.

Frequently, identification of a project is only part of the job. If it is in a foreign country requiring aid, it is obvious that there is an aid or foreign relations component. But in some instances it is broader than that, and there is no unified way to go after the project.

In my opinion, the Foreign Commercial Service did a bang up job on the Kansai Airport, a major airport in Osaka, to be built for $7 billion or $8 billion. They did not have much help from the rest of the government, and the Embassy in Japan, although very much interested in it, did not really make the impact that one would have thought at a time when we had a $60 billion trade deficit with Japan.

I think we have to be able to bring together all of the elements that are relevant to a decision.

Senator ROCKEFELLER. Mr. Fox, may I just interrupt you on that point. That is very interesting. The Foreign Commercial Service was prepared to be aggressive, but the embassy was not.

The criticism always comes—and this is one of the reasons that the Foreign Commercial Service was taken away from the State Department—that the State Department tends to subordinate trade at any given moment to political or strategic factors. They are always aware of trade, but it always comes out second, third, or fourth on the list because it is the bilateral relationship which is always the most important.

It is very interesting that the embassy in the case of the Kansai Airport, which is such an overwhelmingly obvious problem and such a clear case of a closed opportunity to us—that the embassy is not helpful on that.

Mr. Fox. Well, I do not want to give you the idea that the embassy did not know what was going on. They did make one representation. But they were willing to give up.

We ourselves at NAM had a visitation from a group of Japanese businessmen from Osaka, who wanted to explain what they were doing on receiving American goods and trade promotion. When we got to Kansai, their answer to that was oh, that is a completely different subject. That is the way we do it in Japan. And they were not here to trade contracts on Kansai for anything.

They had not been conditioned by the American Embassy in Tokyo, so far as I could see, even to the point that this was a cause celebre and they had better have their story at least a little better put together.

The idea that the Japanese prepare everything in advance and do a terrific job of homework does have some exceptions.

I would like to cite another example where we can put our forces together more effectively in our government, and that is in connection with a power project in communist China.

This comes to us by way of Combustion Engineering, a well known company in this field, and they are very commendatory of the whole approach to that effort.

The State Department's Trade and Development Program provided support for training in that connection.

The U.S. Embassy in Beijing then went to bat for the program over and over again. And then the necessary support from agencies in the United States was demanded by our Embassy in Beijing. When the telegrams started coming back here, they got it. But none of that happened automatically.

Well, I think we have some examples which indicate that the Foreign Commercial Service is ready to go to bat for U.S. industry and that one of the problems is the bureaucracy in Washington is not listening.

I would like now just to mention a few other items, without any detail, as to what more could be done.

I think the administration of the Foreign Commercial Service could be improved. There do not seem to be enough people in Washington that really have had field experience with the Foreign Commercial Service.

I was not impressed by Alex Good's comment about three years' average experience in the private sector prior to going into the Foreign Commercial Service.

One of the reasons for transferring that work from the State Department to the Commerce Department is that the Commerce Department would have greater access to experienced people from the business community. I am not entirely satisfied in that respect.

Other areas of improvement in the administration of the Foreign Commercial Service have been identified a bit by the General Accounting Office in a report on staff morale. I would not comment as to the accuracy of that report. But the GAO is pretty careful and I think the morale subject does require some work. I think that has something to do with the excessively rapid turnover and the lack of career administration at the top of the agency.

The point that you raise of the foreign relations considerations overriding the commercial, that is an old story, and no matter what any Secretary of State says, it continues to be true, I am afraid.

Then, is there adequate coordination at the Washington level, including even the commercial desk officers in Commerce, the foreign country desk officers in Commerce? I have some doubts about that.

I think those areas could be looked into.

Additionally, I would suggest the following:

The Commerce Department really ought to have ad hoc advisory committees on a sectoral basis of business people and on perhaps a geographic basis, not this complicated advisory committee system that requires clearances by the Justice Department and publication a month ahead of every meeting, and inviting every Tom, Dick, and Harry, including the commercial attache of the Japanese Embassy, but informal, ad hoc groups, which do not require all of that, and let them discuss product by product with the group's concern as to what they might be doing. If there is a fear about antitrust, then make sure the Justice Department has an officer present so that when you are doing something sectoral, that aspect is not present as a problem, the antitrust aspect.

I think they ought to try to experiment more with special assessments for particular works. In other words, my feeling is that, generally speaking, people do not value very highly things that they get for free. So, if a trade association is willing to put on a program with the Commerce Department for machine tools, work with that trade association under a special fee arrangement. I think there is a lot more scope for cooperative efforts with sectoral trade associations. I know the Machine Tool Builders and the American Electronics Association are open to that kind of work, and I think it is more specific and therefore more likely to be beneficial than sort of what I would call a general approach, an umbrella approach, say, from the National Association of Manufacturers. We favor it, but we cannot do the specific sectoral work.

I think more joint programs with Ex-Im or AID are in order, so that when American exporters go abroad for a trade event of one type or another, they know in advance that there is money at the Ex-Im set aside for the kind of export credit that would be useful in their product line.

The same goes for AID or the State Trade and Development Program.

By the way, I note that H.R. 3, the Omnibus Trade Bill, does have a provision to transfer work from AID to the State Department's Trade and Development Program with respect to export promotion, and I think thre is some merit in that. The AID concentration is so much on noncommercial activities and the staff of AID is so noncommercially oriented that I think they are not really particularly helpful.

Then, finally, I would say we need more coordination with USTR. The best threat with respect to Kansai is a 301 action because 301 is that section of our trade laws which calls for the possibility of retaliation if unfair or burdensome restraints on American access to a foreign market is continued.

It may be that it has been thought through and there is no reason to threaten the Japanese with a 301 action with respect to Kansai, but I am not entirely convinced that that would be totally useless, either.

I would like to conclude at this point by saying that our trade deficit is not really responding very well to any of the medicine now being administered. It is easier to wreck our trade position with a high dollar than it is to recover that position with a more moderately valued dollar. I think there is a very important role for the Foreign Commercial Service in capitalizing on this new situation, where we are now price competitive. I think that continued efforts on the part of Congress to that end will help the government achieve its goal of overcoming the difficulties more on the export side than through the use of import restraints.

Senator ROCKEFELLER. Thank you, Mr. Fox.

[The statement follows:]

STATEMENT OF LAWRENCE A. FOX ON BEHALF OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

My name is Lawrence A. Fox, Vice President-International, National Association of Manufacturers (NAM). I am pleased to be here today to discuss our views on the U.S. Foreign Commercial Service (FCS) and what it can do to assist American exporters in overseas markets. This is a particularly timely and important topic. The adjustment in the value of the dollar since the September 1985 Plaza Agreement has opened up overseas market opportunities for U.S. manufacturers. We can be sure, however, that other major industrial nations will not easily give up the export markets they captured during the era of the "super dollar" from 1981-85. As exchange rate adjustments narrow the price gap between the U.S. and our competitors, government support, whether in terms of export financing or the FCS, has played and will continue to play an even greater role in successful efforts to compete for export business around the world. Almost every discussion of what the FCS can do to support American business seems to fall into a familiar pattern. From the business side, you hear time and again that when American companies want to get help they go to foreign embassies because other nations understand the value of commercial activities. Political and strategic issues are what drive American embassies, the argument goes, not commercial activities.

The best people in the U.S. embassies, accordingly, are assigned to the former rather than the later functions. On the other side, government officials view such criticism with skepticism—as a bit of the "grass is always greener on the other side" phenomenon. They point out that American business often doesn't even try to see what help the embassies can provide and when they do, it often is too late for the embassy to do much good. These charges and counter charges can be traded back and forth. It is clear that both sides have valid points. But I,m not sure that this anecdotal commentary gets close to the heart of the issue—namely, the degree of commitment the United States is willing to make to competing in international markets. Commitment of International Competitiveness

You can not talk about what the FCS should do to assist American companies without putting the question into the larger context of what the United States as a nation is willing to do to ensure its competitive position in international markets. The NAM has long argued that a national commitment to international competitiveness is the single most important step to be taken in developing a strategy for correcting U.S. trade problems. From this commitment flows the support necessary to implement policies that will increase our international competitiveness. We often have paid lip service to this idea, but have done very little to adapt our policies or institutions to the new realities of international competition. Other nations have adjusted to these new realities. But in this country government-business relations are still driven by an outdated adversarial tradition more suited to the beginning of this century rather than its end.

If the embassies of other nations do a better job of supporting their commercial interests overseas, it is more a reflection of the importance they attach to international trade than it is a condemnation of our FCS. We can't make the FCS as good as our competitors unless we're willing to assign trade a much higher national priority than it now enjoys. In short, we get what we pay for and to date the United States hasn't been willing to put aside other national priorities in order to support our international commercial interests. Other Foreign Commercial Services

A report issued by the FCS in October 1983, The Commercial Services of the United States and Its Major Competitors, provides detailed information on the size, composition and geographic distribution of the trade promotion staffs of 14 countries ranging from Germany to Brazil to Singapore. In general, the study did not attempt to compare the effectiveness of the commercial services, but it does contain facts and figures that demonstrate that other nations put far more resources behind export promotion than the United States. According to the study, the total number of a nation's commercial officers "probably gives the most fair reflection of the relative size of each country's effort." By this measure, the United States falls behind at least seven other major trading nations—Canada, Britain, Japan, Italy, France, and Brazil—and comes in barely ahead of Australia and Korea. In trying to evaluate the importance of these rankings, it is useful to recall that the U.S. exports almost 10 times more goods and services than a nation such as Korea or Australia.

The study contains some surprising details about various foreign commercial services:

Senior trade officers in France can earn $100,000 per year for overseas assignments;

The German Chambers of Commerce, which are responsible for trade promotion but independent of the government, are funded through mandatory subscription by German firms and a 30 percent government subsidy;

Training for trade experts in German Chambers of Commerce begins at age 16 in vocational schools;

In the Canadian foreign service, approximately 25 percent of the head-of-post positions are filled by trade commissioners;

Fifty percent of the budget for Japan s trade promotion organization, Jetro, comes from mandatory membership fees paid by Japanese exporters;

Part of the support offered by the British Overseas Trade Board is a market entry guarantee scheme for small and medium-sized firms, which helps cover up t50 percent of the costs for new export ventures.

The preceding examples have been cited not because they represent specific policies the U.S. should emulate, but rather to demonstrate the level of commitment other nations assign to trade promotion. Role of the U.S. Foreign Commercial Service

The role of the Foreign Commercial Service can be stated rather simply: to support American business overseas. Obviously, this is easier to say than to do, especially given the nature of U.S. business-government relations. For example, throwing the support of our embassy behind one American company is all but impossible when there are two U.S. companies competing for the same contract. Everything from domestic politics to antitrust laws would come into play if the government tried to select one American firm over another in such a case. Foreign embassies usually do not confront this type of problem, since in most industrial countries there is only one company that is dominant in an industry such as telecommunications, electronics or aircraft. Where there is more than one company in the field, an informal system often exists to facilitate the choice by industry-government consensus as to which firm will be the "national champion" in the case of major projects. Hence, foreign competitor firms enjoy the full backing of their governments in terms of export financing, official aid and strong diplomatic support. Whether or how the U.S. should adapt its policies in areas such as antitrust, foreign aid, and export financing in order to more effectively focus government support for American exporters is a question deserving further attention and study. It is hard to argue that we should, for example, revamp our antitrust laws for the sake of better trade promotion. But it is also hard to ignore the evidence that "competition" among American bidders for foreign contracts often plays into the hands of our more united competitors in Western Europe and Japan.

Working within the existing framework of U.S. government- business relations, what is the role of the FCS in supporting American business? In preparing this testimony, we asked this question of a number of NAM member companies. For the most part, their answers centered on two basic functions: 1) providing information, and 2) generating action both in the host country and Washington. The most obvious information that the FCS can provide concerns the political, economic, and commercial climate in a particular country. This may involve insights into the relative influence of government officials in decisions on major projects or it may entail background briefings regarding the local business community. Advanced, early warning information on what ideas government officials are considering for major projects is especially important to the construction industry in terms of pre-feasability studies that can put American firms in on the ground floor of a project. Foreign government participation in major contract awards continues to grow and thus makes it particularly important that FCS put the highest priority on this aspect of export promotion.

Contacts with host government officials is another obvious function of the FCS. NAM members feel, however, that too often FCS contacts are at the wrong level (e.g., too low) and frequently with Americans in the host country. Companies stress the need for the embassy to develop its own contacts and sources of commercial information, independent of the American business community.

Of particular value to companies is information on the involvement of other foreign competitors and governments in the bidding for a contract. This information is important not only because of the commercial intelligence gained but also because it can be used to generate action in Washington to support American firms. For example, in contrast with the entitlement nature of other nation's export financing programs, financing support from the Eximbank often will only kick in when it can be demonstrated that foreign government support is being offered. NAM members find that an embassy's ability to independently verify the existence of such financing can make an important difference in how agencies such as the Eximbank respond to request for support. In short, the embassy can be useful in generating action not only in the host country but also in our own government.

Developing information on the commercial activities of our major competitors may involve exchanges between more than one U.S. embassy, something which may not happen frequently enough, according to NAM members. Using a specific example to illustrate this point, the British government recently opened up an export credit line in Iraq. It would be interesting to know how fully this was reported. Were the State Department and the Commerce Department both informed about this development from London, from Baghdad? Were those two embassies, including the appropriate commercial people informed of the relevant developments in the other country? Certainly all of this should have been done.

Our member companies also point out that it is not only the FCS that can provide valuable assistance to American firms but also other U.S. government agencies connected with the embassies such as the Agency for International Development (AID). With an increasing amount of business in the developing world tied to foreign aid grants, AID's role in support of U.S. companies will become more important in the future. Companies point out, however, that there is still no easy way to find out about what AID is doing in a particular country and what financing is in the pipeline that could be used to support American business.

On an important and related point, I should note that AID support for business in the mixed credits export financing program has been especially weak. Both the Senate and House versions of the omnibus trade bill—H.R. 3—make important organizational changes which would place control of the mixed credits program under State's Trade and Development Program rather than AID. This is a reform backed by NAM which we hope is adopted by the House-Senate conference dealing with the omnibus trade bill. I have covered a number of different points in the last few minutes and there undoubtedly are many more issues that could have been added. It might be useful here, however, to cite an example of how this all pulls together to help American firms win an overseas contract. When we met recently with a group of American exporters to discuss the FCS, one executive from Combustion Engineering started the session by saying that the U.S. Embassy in Beijing had done a good job in supporting their successful bid for a project in China. In response to a question about the nature of this support, the executive noted the following:

State's Trade and Development Program provided important financing support for training;

The U.S. Embassy had gone to bat at the right times with the Chinese government—a particularly important role in a country where governmental representations carry special importance; and

The embassy had weighed in with the necessary agencies in Washington to verify the need for prompt action from Washington at critical points on issues such as export controls and financing.

This type of cooperation is what we need to see more of not only in Beijing but also Tokyo, Brasilia, New Dehli, Lagos, and elsewhere throughout the world.

While citing some of the excellent work that has been done by the Foreign Commercial Service, I would like to mention as well the Kansai airport project in Japan. It remains to be seen whether U.S. producers will win any significant business in connection with this project. If they do, it will only be because it has become a political issue in the United States. I know that it is the feeling of many in the business community here that it would not have happened without the persistent, indeed remarkable, work of the U.S. Foreign Commercial Service people in Japan.

Issues for Further Investigation

It is our understanding from Congressional staff that the hearings today are the first Senate oversight hearings on the FCS in a number of years. We applaud the initiative shown by the Subcommittee. We hope that your work will not stop here and that further oversight hearings will be held.

Indeed, in preparing for this testimony today, we turned up a number of questions that deserve further investigation. A list of these would include:

What should the role of the FCS office in Washington be? Are enough of the top slots in this office filled with FCS officers with field experience?

Is there a morale problem in the FCS as alleged in recent GAO testimony before the House Government Operations Committee?

Do political considerations often override commercial considerations in decisions about where to station FCS personnel overseas?

How well is U.S. commercial policy coordinated between the FCS, country desk officers, and industry specialists in the Commerce Department?

How effectively does the State Department carry out trade promotion responsibilities in embassies to which no FCS officers are assigned? How well is State's work coordinated with Commerce.

Does the FCS have enough standing in the hierarchy of American embassies to get the job done? Are FCS officers being given too many assignments outside of export promotion?

It should be noted that the Congress itself has already provided part of the answer to the last question above. Both the Senate and House in passing their respective versions of the omnibus trade bill include provisions authorizing eight overseas missions where the senior FCS officer would be given the title of Minister Counselor. A House Foreign Affairs Committee report on this provision states that "conferring this title upon senior commercial services officers at certain key post will facilitate their access to officials important to United States commercial interests."

It should also be pointed out that the House trade bill includes provisions which among other things provide a statutory base for the FCS beyond the 1980 Executive Order creating the Service, require a Presidential report on strengthening the FCS, and mandate audits of the FCS at least every three years. NAM would hope that the Senate will accept the House provisions dealing with the FCS. Conclusion

The huge trade deficit and correspondingly large growth in our international indebtedness requires priority attention to export promotion. We are not satisfied that today's Foreign Commercial Service is meeting this challenge. We can't reallY expect the FCS, however, to go beyond what we are willing to do as a nation to support our international commercial interest. This is a point that cannot be stressed enough whether we re talking about improving our FCS, streamlining our export control process, beefing up our export financing system, or reordering the priorities of our foreign aid program. Until we make such a commitment, the FCS faces an uphill battle in providing necessary support to American business competing in international markets.

I want to thank you for the invitation to testify today. I would be glad to answer any questions.

Senator ROCKEFELLER. Rick Houvouras, I am very glad that you are here. I am particularly glad because you and I have talked in the past about opportunities in West Virginia for small businesses to get into exporting. I am very pleased that you have taken the trouble to come here to Washington to talk to this Subcommittee about your views on this general problem.

I welcome any comments you might have.

Mr. HOUVOURAS. Thank you, Senator Rockefeller.

Listening to a lot of the comments today has been very educational for me, as a small businessman. That is what I am. I am a Vice President of a company called Huntington Plating, Inc. We have been in business for about 40 years, located in Huntington, West Virginia. We have about 50 employees.

One underlying factor for all small business people is that some day they would like to be big business people.

We have had some experience in the exporting area. Most of it has been through support through other larger companies, like Kaiser Aluminum, Huntington Alloys, IMO, people like that. I think there is an open field in our area for that type of exporting, as far as working with other companies.

As a businessman and a member of the West Virginia Legislature, I feel I have gained a little better perspective on when business and government work together and how together they can succeed in their efforts.

Today, I would like to share a little bit of that with you, on how the International Trade Administration can succeed in the development of export trade for small businesses in West Virginia.

I am not here to ask for money because I do not think money is really the key to the success. I think more money in this area would be an easy approach. But I think the real key to success in this area is the efficient coordination of the major elements within our Federal, State, and local governments in their efforts together in coordinating effective exporting for small businesses.

This, I feel, is the role of the International Trade Administration. In our area in West Virginia, in the district which I represent, we have many elements going in different directions. They are not coordinated in their efforts to help small businesses.

The International Trade Administration must take the lead, I feel, in these efforts if small business is to compete in the foreign export market.

Their actions must be flexible, so as to recognize potential needs within the areas of responsibility. Examples of this would be in our State of West Virginia, as you are very well aware, we are not experienced like California, Washington, and Massachusetts in the export field. We need a little special help.

West Virginia has an abundance of small businesses and hidden talents that I think need to be cultivated and nurtured. I feel that this can be achieved through the efforts of some of the other groups that I will talk about in a few moments.

Working in the export field is very similar to working with defense procurement, as you are well aware. I know that for many years I have attended seminars about trade and defense, and you usually walk out in the morning and go back to your business and forget about what you have seen.

But last Monday I attended a seminar in Princeton, West Virginia, that you put on, Mr. Chairman, which I thought was a class act. Not only did we hear how to get into defense procurement, but we also sat down with the major purchasing agents from the Army, the Navy, the Air Force, and the major corporations. I feel that I gained more sales leads talking to those people so that it will probably take the rest of this year and half of next year to follow up on to bring business into my company.

I think this same type of approach in our State has to be taken with export procurement.

Within our area, we have the Department of Commerce, and we have Roger Fortner and Jim Pidder down there working very hard. Also, on the State level, we have the Office of Economic Development. We have some problems in that area because we lag behind in our trade offices overseas. We have a State Chamber of Commerce, and on the local level, we have Marshall University and its Center for Regional Progress, and our local Chamber.

I think combining those together and using the Department of Commerce as the glue, I think we can work out a formula for success in this trade area.

If we are going to succeed, I think there has to be a fundamental goal that we all look for, and that is a profit goal. We in small business have to operate on a profit. By this, we create jobs. When we create jobs, we create a bigger tax base for the country and you have an easier time doing your job.

If this is not our goal, this profit motive in the export business, then we are wasting our time. I know there is a lot of other complication in areas that these gentlemen have talked about, in this profit motive and doing work overseas, and some of those things are a little bit above me on some levels.

But in our area, in West Virginia, we have fear of working in the export market in the small business areas. Even though our coal industry does a lot of exporting, the small businesses, the small manufacturers, have not really taken advantage of this.

I think what we need to do in order to be successful with small businesses in our area is, first of all we need to define the markets in the foreign areas. That must be done by the State of West Virginia by opening trade offices, which we have not done.

We have budgetary problems in our State and we cut the million dollars that we were going to spend on that this year. Hopefully, this year we will get this going and get it started so that we can start defining the markets that our businesses ad our State can compete in.

I think one thing we have to do, which is very, very important, is to combine the talents of small businesses in our State. We have businesses that are talented in certain areas and that can be combined in their efforts to produce a product that we in West Virginia can export. I know that in Huntington, we have International Nickel, we have Haskell Corporation, we have Huntington Plating and we have IMO. They all produce a product that could be combined in a joint effort for overseas exporting.

I think that the State Chamber of Commerce and Marshall University can help in this area, combining these talents, recognizing these talents so that they can combine them together for successful efforts.

I think we have to overcome the fear of doing exports. I think that fear can be overcome through education. I think education is the key, and communication, to overcoming these fears that we have.

It is awfully difficult in West Virginia right now for small businesses to compete. We have a declining number of businesses with a higher taxing burden.

I think that something like working with the Department of Commerce could help us in creating more jobs and more profits for our businesses and we can then help with some of the problems that we have in the taxing areas on business in West Virginia.

I think if we do these things and we combine these efforts to a single goal, we can be much more effective in competing in these areas.

Thank you.

Senator ROCKEFELLER. Thank you very much, Rick Houvouras.

It is ironic, that this afternoon, Mr. Houvouras, I am taking a group of 21 Japanese businessmen from Keidanren, which is far and away the most powerful business organization in Japan, and we'll be going to West VIRGINIA. A lot of preparation, a lot of work goes into getting them to do an investment and trade mission to West Virginia. They will come to West Virginia, and they will get to know West Virginia better as a result. They are coming at my invitation. They will spend time there and learn something about our State.

Then, if we follow up, there may be a result in terms of investment, or there may not. It depends on their assessment of what we have to offer in our State.

There is much attention focused on trying to increase jobs through foreign investment in our State. But, as you have pointed out, we have businesses, small and medium sized businesses in West Virginia which are already in place, which are able to, and are, producing products which could be sold overseas, if there was not, as you stated, this fear of exporting. This is a kind of barrier which says that a small or medium sized business cannot get into the export business, even though the opportunities are there.

The opportunities are advertised. Large companies know about them, although small ones tend not to. It would be so much easier if these small firms were to pick up the ball and run with it. Their business is in place. Their entrepreneurial instinct is in place. And if they can be put together with export opportunities overseas, jobs will grow. The base is there in a State like West Virginia.

Why is it that small businesses are reluctant to take the chance on exporting? What are the opportunities for small businesses, in West Virginia, for example, if they were willing to get into exporting business, with encouragement and help from the U.S. and Foreign Commercial Service?

How do you see this problem?

Mr. HOUVOURAS. I think one of the biggest fears businesses in West Virginia have is the cost incurred to small business in developing markets and penetrating markets overseas.

I think one of the things that the State of West Virginia could do in its trade offices could be to develop a network of manufacturers' representatives from the foreign countries, who could come over to the United States and to or STATE. They have to learn about our businesses. They have to know what our talents are, what we are able to produce, and then represent us in those foreign markets.

There are a lot of opportunities in West Virginia, not only in coal. IMO, which is a company that has been in Huntington for 42 years, does exporting. They do not actively seek exporting. They just do it because of their reputation. They would love to get more and more capacity. They have the capacity, they have the talent, they have the expertise. They just do not have the willingness at this point to spend money, to hire salesmen and then spend money on a marketing strategy overseas.

They will take what is given to them, but they will not actively seek it. I think this is basically the attitude in West Virginia's small business community: if it comes to us, we'll take it, and we'll do a good job, and we'll show them what we can do.

But you have to follow up. You have to be knocking on those doors. You have to be talking to the purchasing agents, like we did down in Princeton. There is where you get it.

The representatives who come over here, you shake hands with them, you sit down and talk with them, and basically you will never see them again. You need to go back and knock on the door. Keep making sales calls. That is how you are successful in marketing approaches, by going back, over and over again, till you shake the bushes and get something out of it.

Senator ROCKEFELLER. Do you think that our small business people in West Virginia have a sense of export opportunities, even if they are not willing, at this point, to commit the resources to getting into foreign markets? Do they sense that there is an opportunity to make money and create jobs overseas?

Mr. HOUVOURAS. I think they think there is an opportunity. But, of course, one of the things that you first think of is trade restrictions—you know, why go through this hassle because, even if you can compete one-on-one on a manufacturing basis, their trade restrictions are going to put you out of the competitive edge. So it is like why don't we just keep our efforts right here in our own area and forget about the foreign market.

I think we lose a big potential there. Of course, those are other problems that I know you are dealing with.

It is there, but it is in the backs of their minds. It is not in the forefront of their business activities on a day-to-day basis.

Senator ROCKEFELLER. The agency that we are having this hearing about, the U.S. and Foreign Commercial Service, is supposed to overcome that sense of hesitancy on the part of small business. They have a presence in Charlestown, West Virginia. There are four people there. They have data, they have information available about opportunities overseas. They can talk about licensing problems, restriction problems, barrier problems, tariff problems, and anything else.

In other words, here is an agency of the Federal Government which is geared precisely to encourage the small business opportunity.

Why, in your judgment, is it not working better?

Mr. HOUVOURAS. Well, one of the reasons, as I stated earlier, is you have so many different elements going in so many different directions, as a businessman I have to be a little more structured. I have to have a better sense of direction.

When you see Marshall University's department going in one direction and Roger's department going in another direction, and Dudley's going in another direction, and not working in concert, there is a tendency for me to shy away from it.

I think if you saw a more united effort on their parts, you would see more of a response from the small businesses in our area.

Senator ROCKEFELLER. Mr. Fox, in a sense that goes back to what you were saying, doesn't it, that the instinct for exporting, or the sense of commitment to exporting, is simply not as well developed in this country? Maybe this is because of the fact that we are such a huge market ourselves.

Mr. FOX. Thank you, Senator. That is the point I wanted to make.

If you are a small company and you are dedicated to growing and you have scarcely scratched the market in the United States, it makes a lot more sense to really go after the American market before you take a chance on Europe or Japan.

I would comment on a sort of half-way approach to this. Frankly, it is one of the reasons why I favor a free trade agreement with Canada.

Canada is a good place to find out whether you can really export at all. It is a different country. It does have different currency and it has different rules. A lot of American companies that I think would continue to expand in the United States before tackling a foreign market I think would look at Canada somewhat differently. I think the free trade area will be helpful in that connection.

I do not think it is possible to convince companies to take a real chance abroad when they have not adequately developed the American market, unless they have something really special to offer and at an exceptional price. A lot of American companies do export more than appears to be the case. The smaller companies export through the larger companies. Boeing has suppliers in every State, and I am sure it has suppliers in West Virginia. That is the approach to the export market, to provide components to the larger manufacturers, and the parts through Boeing. We do not have any data on that, however, although Boeing does.

But that is not so much the way it is done in Europe. Take Germany, for example. You are not really much of a manufacturer and cannot go to the country club and have dinner unless you have your export volume up to 45 or 50 percent of your total sales.

Well, it is no trick to go from Germany to Switzerland or Holland. That is just part of the market. In Europe, it might actually be easier to develop a market outside of Germany than to move up your market share in Germany.

That is just the opposite of the situation in the United States.

I would say something further about export incentives and treatment of capital for export.

I do not think our system is well adapted to that at all. Expenses in connection with product development for export are not treated differently than other expenses for product. There is no special allowance for R&D in terms of smaller companies or even medium sized companies. There is a lot to be said for expensing product development and R&D, expensing for tax purposes. In other words, a company can determine its own schedule of depreciation based on its own business considerations, rather than on the IRS's arbitrary determination of life of the property.

Senator ROCKEFELLER. Let me interrupt you there for a second and just use West Virginia as an example, although it could be any State.

In West Virginia, last year, we exported $2.6 billion of goods and services. A billion of that was coal; a billion of that was various chemical products and derivatives; and $600 million was many other things.

Now, what we are talking about here is the U.S. and Foreign Commercial Service, which is not trying to encourage large businesses as much as it is small and medium sized businesses.

What I am hearing from all three of you is that the system is not working and, perhaps, that it cannot work, because of too many regulations, because small business does not want to put up the money to get in, because of fear of licensing problems, because you have to make money at home first, because you have to expand at home first, because you know the home market better so why take a chance on the foreign market.

That is what the U.S. and Foreign Commercial Service is meant to be overcoming. I would like you to tell me if you think they are.

You have all been a bit negative about it, with various complaints about them.

Mr. FOX. Well, they are not overcoming that inhibition. In part it is because they do not have the visibility and the clout and they do not have the incentives to offer to make it an attractive commercial investment of new capital.

Senator ROCKEFELLER. But they are advertising in the newspapers; they have a budget of $70 million; they have 1,300 employees; they are in many countries; they are in all of our States. They have presence, and their job is to make their services known to small and medium sized businesses. Some are taking advantage of it.

So what is the problem here?

Mr. FOX. I think I have expressed a view about the relative attractiveness of domestic opportunities versus foreign. Perhaps at a future time you might be able to hold more extensive hearings, perhaps in your own State with a variety of smaller companies to get their opinions.

I do not hold the view that the Foreign Commercial Service should confine its attention to medium and small companies. They could do a heck of a lot of good on coal contracts, where governments are frequently involved, where the foreign government arranges for the purchases.

They ought to be working with the authorities in West Virginia and with foreign governments. I do not agree entirely that it all should be for small and medium sized companies.

But, nevertheless, I do think, in a way, that the biggest problem is the relative attractiveness of the U.S. market.

Now, traditionally, when the United States is in a recessionary condition, our exports increase. Our imports decrease and our exports increase.

Now, I am not one to advocate solving the trade problem through a recession in the United States. But the reason the exports increase in a recessionary period is the U.S. market is not as attractive as it used to be. Then they search for foreign markets.

I think, frankly, more financial incentives by way of investment of capital and more rapid return on investment , cash payout on investment, is an important area for consideration.

Unfortunately, the Foreign Commercial Service does not have that responsibility. They are the salesmen, but they are not developing the incentives. The incentives are in the IRS or in the USTR, where they frankly just do not have the interest or the clout to put across new ideas. There are lots of schemes for market development that have been used all over the world, where contributions for government and private sources could be intermixed. JETRO, which is the export promotion agency of the Japanese Government, has about half its funds from private sources and half from the government.

Senator ROCKEFELLER. Mr. Fox, I understand this problem of incentives and we all understand that the U.S. and Foreign Commercial Service does not have those incentives to offer. But Rick Houvouras just finished saying that on Monday at a defense procurement seminar, he, because opportunities were presented to him, feels he can fill up the rest of the year in taking advantage of tthose opportunities.

In other words, information was made available and he grabbed at it.

Now, dealing with the Pentagon is not exactly easy. There are stirct procedures for bidding, strict, specifications, and a lot of paperwork. That is a big psychological problem—how to overcome the instinct not to get into it. But it is profitable, or at least Rick Houvouras feels that it is.

Now, why is the business of exporting so different?

Mr. Fox. Let me say that that is a very good question, Senator.

One of the reasons is that the Defense Department has set-asides for small business.

Senator ROCKEFELLER. That is correct.

Mr. Fox. That is an incentive, and if you go after it and work hard and have a good product, the chances are you will succeed.

There are no set-asides in the export markets, and so far as the possibility of failure, they can be crushing. If you really put enough money into a marketing effort to succeed and you do not, for reasons that may be under the company's control, such as marketing mistakes, the penalties are pretty severe.

I am simply saying that this is the real world. I believe that the relative attractiveness of the U.S. market is known, and companies that have not fully developed the U.S. market are taking extra risks of moving abroad, unless they have some particular insight as to why they have a unique product and a special way of selling it and why it should be more profitable.

Senator ROCKEFELLER. Mr. Valentine, you made six very useful suggestions of what to do about this. We have the U.S. and Foreign Commercial Service with the job of increasing exports by making knowledge of export opportunities available.

I am hearing some pessimism from this panel. I mean, we have to get beyond the instinct of just working in our own domestic market.

We have to realize there are 4 or 5 billion people out there who may have want some of our services. How are we going to do this?

Mr. VALENTINE. Let me just comment on a few things.

First of all, I don't think that I share that air of pessimism. There are a lot of small and medium sized companies that do succeed overseas and succeed very well. The example that Mr. Good gave earlier of going to a trade fair and selling within two days, your entire capacity, for a year is something that is not unusual for small and medium sized companies.

Senator ROCKEFELLER. Would you elaborate on that?

Mr. VALENTINE. Yes.

A lot of small and medium sized companies, when they do go overseas, end up with orders greater than what they can possibly handle, and a lot of small and medium sized companies are aggressively going overseas.

I just came back from the Entrepreneur of the Year Award Ceremony in Boca Raton, where I talked with a lot of companies that have less than 100 people. They are getting more than 50 percent of their revenue from overseas, and they are very optimistic about it. As a matter of fact, that is what they are focusing on.

They realize that only 5 percent of the population of the world exists here in the United States. Yes, the U.S. is a big market. It accounts for one-third of the world's purchasing power. But they also are beginning to identify and focus on the other two-thirds of the world's purchasing power outside of our boundaries.

The small and medium sized companies are not using the U.S. and Foreign Commercial Service. As a matter of fact, one of the participants in this group, since they knew that I was testifying today, asked me to say that they were a bit frustrated with the U.S. and Foreign Commercial Service because it is understaffed, and when they have tried to get help, they have gotten a lot of information but not a lot of help.

The smaller companies are going overseas. They are doing it privately.

Senator ROCKEFELLER. Let me go back to what you just said: they are getting a lot of information but not a lot of help.

Can you elaborate on that?

Mr. VALENTINE. Yes.

What happens is what I think is a very realistic thing. I think the people in the U.S. and Foreign Commercial Service will agree with me. With the number of inquiries that they might get in a given day or given week, the best that they can do is hand out a pamphlet, hand out some information, and shake the person's hand and say "good luck, I hope you do well in this country," or "here are some leads." What they end up doing, the small businesses and medium sized businesses, is turning to the American Business Council, the American Chamber of Commerce, their accountants, attorneys, and their bankers to help facilitate the rest of it.

The staffing that exists in the U.S. and Foreign Commercial Service overseas is just totally inadequate to do anything really effective with small and medium sized businesses, other than to give them data.

I think that one of the things that Mr. Good was touching on today is the fact that they are putting in a new computerized information system. Again, that is what they are going to be providing, information, and I think that is where their focus has been.

I think that there is a mechanism in the U.S. which is much like a car that has been disassembled. There are bits and pieces, like the American Business Council., the American Chamber of Commerce, the U.S. and Foreign Commercial Service, the State agencies that are overseas. If they all could be put together, it would become a mechanism to help promoting exports.

Right now, what we have is all those little parts laying here on the floor in front of us, and that is why it is not working.

Senator ROCKEFELLER. What would you have them do? They have 1,300 people, and a $70 million budget that is probably not going to be increased. So how can they make what they have more effective, in your judgment?

Mr. VALENTINE. Overseas, what they could do is link in more strongly with the American Business Council and the American Chambers of Commerce, so that as soon as somebody comes in and says I want to know what to do to get started doing business in this country, they would be immediately referred to breakfast briefings which exist in almost every country by the American Business Council, which tell people how to do business. In other words, a group of people, a lawyer, an accountant, a banker, someone from their industry, sits down at breakfast and talks with them about how to do business there, how to develop leads, what are the channels of distribution, what are the kinds of companies that they need to touch base with if what they want to do is set up an agency or find a manufacturer's representative.

It does not cost much money that way, and what it is is leveraging off the organizations and entities that already exist, which are really part of the United States. Forget whether or not it it the United States Government. But it is the United States, and the Foreign Commercial Service could work more closely with those organizations. In some places, they already do. They are active in those groups.

But they could be more active everywhere, so that they can give them some information and then make the introductions to the American Business Council, the American Chamber of Commerce, so that we end up with a network with numbers greater than the Japanese have overseas.

Senator ROCKEFELLER. Let's now go back to what Rick Houvouras was talking about—a small business in West Virginia, or Indiana, or Ohio, for example. What can the US&FC do differently? Everything has to start with information. The government can't just walk in and say "these are the five things which you have to do in order to get that contract." That is hand-holding beyond what four people in the Charleston office could reasonably expect to do.

Again, with existing resources, what could they be doing differently at the State level?

Mr. VALENTINE. In the States, some of the things—and I alluded to this in my six points—would be to have more seminars on why to: why should you go overseas? What are the sizes of the markets? Also, at some of these seminars present some of the success stories, some companies that have successfully gone overseas. How did they do it? What kind of returns did they have? How did they overcome the obstacles? I refer to them as obstacles, rather than barriers, because a lot of companies have succeeded in doing this.

This is what I can see the U.S. and Foreign Commercial Service doing in a State and in conjunction with the State development authorities: having more of these kinds of things that are practical. An American businessman is more apt to listen to another American businessman who has gone overseas and succeeded and listen to his story. That will heighten their awareness and interest in wanting to do it.

I guess what I am calling for is more of a private sector initiative and involvement with the U.S. and Foreign Commercial Service, trying to get more private businessmen involved in spreading the word that there is money to be made overseas, that it can be done, and that it is not an insurmountable obstacle to be able to do those things.

Senator ROCKEFELLER. And you have seen that work?

You have seen a businessman, a small businessman, who was heretofore hesitant about getting into the export business——

Mr. VALENTINE. Yes.

Senator ROCKEFELLER.——talking with people who have and who have been successful.

Mr. VALENTINE. Yes.

Senator ROCKEFELLER. And then that person is encouraged to go ahead and enter into it?

Mr. VALENTINE. Yes.

As a matter of fact, that is how many of them made their first exploratory trips overseas, because they have talked to someone, who was successful. They come and they make their connection with the American Business Council, the American Chamber of Commerce, and start developing their network that way.

In many cases, they circumvent the U.S. and Foreign Commercial Service because it is not known or because when they went there, all they got was information.

An interesting statistic, a private one all of my own, is that in 14 years of being overseas, I have only met two companies that have gone through the U.S. and Foreign Commercial Service to go overseas. Everybody else has come on a private basis and met with other private individuals and started their work overseas that way, with their counsel.

Senator ROCKEFELLER. That is a fairly potent statement.

Mr. VALENTINE. Of course, it is a small sample, from only one individual, and that is me.

But, again, take the public accounting firms, the management consulting firms. We might have overseas 30,000 or 40,000 people each overseas. Individual banks might have 20,000 people. An American businessman, when he goes overseas, is going to look to his auditors, and to his bankers for the connections. It is the same thing with the legal firms such as Baker and MacKenzie. They all have offices overseas, and people, the private businessmen, when they go overseas, are going to think first about trying it through the private channels. They are just not aware at this point of the U.S. and Foreign Commercial Service. Even the State economic development agencies—I have been meeting with a lot of them—and they are frustrated. They don't know how to promote exports. They don't know how to get their name known. They don't know how to get local businessmen to, in fact, even know that they exist, and then they don't know what to do after that.

So the government agencies are in a quandary, unless they can link up with some of the American businessmen and American business organizations. If they can I think it will help promote exports, and also give it an air of credibility that American businessmen like to have.

This is not to denigrate the government operations, but it is just that there is greater credibility when a businessman talks to another businessman.

I think that this is one thing that the State agencies and the US&FCS can do. By facilitating this concept of the Matchmaker Program and the like and trying to build on the business network that exists already and trying to pull together this mechanism that I described before as laying around in parts—this is what they could do: they could be the glue that holds that together.

Senator ROCKEFELLER. Gentlemen, are there any other comments about exporting or the U.S. and Foreign Commercial Service that any of you would like to make?

Mr. HOUVOURAS. I would like to comment on something that he just said concerning private business going to private business to get their leads.

If someone from the Department of Commerce came into my office and said let me tell you how to improve your business, it probably will go in one ear and out the other because he is from the government. There is no profit motive there from him. But, now, if someone comes to me from International Nickel, who is a manufacturer's representative, who has been involved in this, and says Rick, there is a market here for this particular item that you are producing, this gentleman and I are going to sit down and we are going to talk.

I think the credibility from the government, saying let me show you how to run your business better, is not well received.

Senator ROCKEFELLER. But that is not what they are doing. They are trying to make available knowledge and information.

Mr. HOUVOURAS. Yes, right.

Senator ROCKEFELLER. The newspaper I showed is an example. Just look at that.

Suppose this was all they did. Suppose you picked up the Huntington newspaper once a week and you got all sorts of information there: machine tool information, power tool information, fabricated metals information. There is information right here (indicating).

Mr. HOUVOURAS. That is the type of information that the type of business I know, the people in my circles, need. We need that type of information. Then you can go back to the Commerce Department and say now this is an opportunity available to us in Canada or Belgium. Now, what do we have to do? Help us move to this direction.

I look to where we'll get three or four companies together to go after opportunities like that, so that we can defer the cost. Doing it together, it does not cost as much as if I tried to explore it all by myself. I think this is the type of setup we need to have.

Senator ROCKEFELLER. All right. Are there any other points to be made, other than your unanimous belief and trust in government?

I want to thank you all very, very much for taking the time today. It is interesting. We are a global economy. States in the traditional economic sense. We have national economies, regional economies, and international economies. We have to understand that exporting is necessary to make our country stronger, and to keep our people working.

I get a lot of criticism when I talk with people in West Virginia about foreign aid. In fact, I get almost unanimous criticism about foreign aid. Then I point out that there are about 100,000 jobs in the country that depend on foreign aid. People get money from the United States for the purpose of bolstering their economy and they come back and buy services and products from us, and nobody ever things of that. Well, we are global; it all works two ways.

Therefore, increasing exports strikes me as a really fundamental, primal instinct, which American business, small, medium, and large, has to improve, and the government, in whatever way we can, has to facilitate.

The U.S. and Foreign Commercial Service is a key player, or potential player, in that process.

I want to get them back a year from now and go over some of the testimony that you gentlemen have made and discuss some of these problems with them. I want to be able to monitor what it is that they feel they have contributed to this process.

Exporting has to be a part of our future much more strongly than it is now. Businessmen saying that they don't trust government or that they can talk to somebody else from business but not to government people, that is okay. But in Japan, government and industry have learned to work together, just as government and labor have learned to work together.

I do not think there is any place in the United States now for the kind of labor-management friction that we have had in the past. I do not think there is any place for business and government looking at each other from across a boxing ring. There has to be a joint effort on this. We need to do better.

We have US&FCS in place. With your help and our help, we can make them do their job better, however that is to be accomplished.

I am determined to see it happen. You know, we fight for years and years in Congress over spending $100 million in Central America, and here is $70 million that we are spending every year. We might as well do it usefully.

Mr. Fox, were you going to say something?

Mr. Fox. Mr. Chairman, you invited a final comment and one did occur to me.

You might want to look at the subject of export trading companies. The government did pass legislation to make that more satisfactory and to relieve the companies of antitrust and certain other constraints.

My impression is that they have not been very successful as a device in this country, whereas in other countries they have.

That is another way to explore why small companies, which can make use of export trading companies, have chosen not to do so.

There is a lot of expertise in these export trading companies or export management companies, and you might want to look into that subject. It is related.

Your comment, which, of course, was made in good fun, that none of us trusts the government, is not quite true. But small business firms apparently do not trust the export trading companies either.

So there is something in the psyche of the small business firms in manufacturing that leads them to be skeptical with respect to export markets, and there is another approach to that aside from the government role, and that is the use of the export trading companies. I suggest you might want to consider that.

Senator ROCKEFELLER. Very good.

Once again, I thank you all.

This hearing is adjourned.

[Whereupon, at 12:00 p.m., the subcommittee adjourned.]

[The following information was subsequently received for the record:]

STANDARD INSTRUMENTATION,
October 15, 1987.

HON. JOHN D. ROCKEFELLER, IV
U.S. Senate Dirksen Senate Office Building Washington, DC

DEAR SENATOR ROCKEFELLER: I am sorry that scheduling problems prevent me from attending and participating in the October 21 hearings on this subject. However, I do wish to comment on the matter and provide the following for your consideration.

As an active exporting company we have had occasion to use several of the services available through this program and have dealt with the Washington headquarters, several overseas offices and our local district office most often. Fully understanding the importance of the documentation for administrative purposes, we never the less become as frustrated as the next when delays occur that create additional problems at our end. The respon- siveness of any one facit of an export transaction can be critical to the overall success of that transaction, and to any future transaction of the type. When dealing with letters of credit, import licenses, export licenses, etc., each with their own deadlines, timing can become the most major factor to be dealt with. Administrative bottle- necks at this point are fatal. A recommendation in this matter would be to decentralize some of the administrative functions of the program: commodity classification deter- minations and routine export licensing approvals could be the responsibility

of district or regional offices. These offices are most familiar with the exporting companies of their area and the handling of these matters would very likely facilitate a quicker turnaround.

Another very important goal for us all right now is to bring more small and medium sized firms into exporting. Many firms with products and/or services that are suited for export are, for one reason or another, not persuing those possibilities. Whether uneducated to the methods of distribution, unaware of the assistance available or hesitant to try out the unknown, they must be assisted on that first major step...the first export transaction. A firm with products or services that are marketable and competitive in the U. S. owes it to themselves, their emp- loyees, the stockholders, and to their state and country to at least investigate the possibilities of exporting. As we move closer and closer to a true global economy, we must improve our trade position or be left behind.

As we make progress in one area, bringing more new to export firms into play, we will further complicate the other area of effectiveness and responsiveness of US&FCS. Your efforts to oversee the service may help spur the growth needed and prevent the subsequent complications, but only if a long range plan for US&FCS is in place and maintained. US&FCS must be viewed as an important, very necessary major investment, much like insurance; none likes to spend the money, but the service is there when you need it!

And we need it...we owe it to our children!

Respectfully,

C. RAY DANIELS, JR. *President.*

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